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PUBLIC BUILDINGS PROGRAM OF THE GENERAL SERVICES ADMINISTRATION

HEARING

BEFORE THE

SUBCOMMITTEE ON WATER RESOURCES, TRANSPORTATION, AND INFRASTRUCTURE

OF THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

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PUBLIC BUILDINGS PROGRAM OF THE GENERAL SERVICES ADMINISTRATION

TUESDAY, MARCH 20, 1990

U.S. SENATE, COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS, SUBCOMMITTEE ON WATER RESOURCES, TRANSPORTATION, AND INFRASTRUCTURE,

Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 406, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan (chairman of the subcommittee) presiding.

Present: Senator Moynihan.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, U.S. SENATOR FROM THE STATE OF NEW YORK

Senator MOYNIHAN. Good morning, and a very apologetic good morning. I have no colleagues here. They are taking their important time.

Would our distinguished witnesses wish to hear my personal theory about how the war in Vietnam came about?

It was the night before the inaugural, January 20th, 1961, and it snowed—five inches, ten inches, a foot of snow—and Washington was paralyzed. Washington is always paralyzed. There was just general gloom in the Kennedy entourage. They were thinking, "We have to cancel the inauguration. We certainly have to cancel the parade," and all that. Someone said, "Not necessarily. Why don't you call up the Corps of Engineers and have them come up here and sweep up the streets and get rid of the snow?"

They did. The Corps of Engineers came up and the next thing you know, there wasn't a flake of snow in all of downtown Washington, and the Administration came into office with an altogether exaggerated impression of the capacity of the military to change otherwise desperate situations.

But we didn't have them this morning, and I'm late and I'm sorry. I see Mr. Diefenderfer and others here who have to be on their way, so we will get to work directly.

The question we are here to discuss is the President's proposal for the Public Building Service and of particular interest to this subcommittee—the Subcommittee on Water Resources, Transportation, and Infrastructure—is the proposal for the arrangements we began some years ago under Mr. Austin's distinguished predecessor Mr. Golden, to put up buildings on a lease-to-own basis.

It seemed to provide an answer that had alluded us as regards to the question of construction of public buildings which has been a

very sporadic exercise here in the Capitol. After World War I it was learned that the Federal Government began renting space in Washington to the point where there was a rental bill of $1 million. That lead Secretary Mellon, in whose office the Office of Public Meetings was located, to set out that great public enterprise, the Federal Triangle, which stopped flat-bang when the depression came in 1931—just stopped, leaving the huge spaces. Some we like, like the Old Post Office. Another is the Federal Triangle area which is just a parking lot, and it just stayed that way until 1961. President Kennedy created an ad hoc committee on Federal office space, because no buildings had been put up since the depression, with the one exception of the annex to the old War Department which is in the new State Department. I was secretary of the committee and we thought we would use the occasion of the Federal Office Building Project to begin the redevelopment of Pennsylvania Avenue, which was an important statement.

We thought we would use this effort to rebuild Pennsylvania Avenue and other things, and we got that underway, but we never could get any Federal building underway, because soon we were involved in Viet Nam, and again, our budgeting processes do not allow the capitalization of this kind of public work.

All the money must be up front, and you can't do that. He couldn't do it, because of one thing and then another thing, and the next thing. Senator Stafford, the chairman of our committee for six years—most distinguished chairman indeed—drew very concerned as the rent bill, far from being $1 million, passed $1 billion, and then it is on its way to $2 billion, and Mr. Golden came up with—a proposal to do this by leasing to own.

We have three such enterprises underway, the Judiciary Building, which is located right over there—the second building ever that we have built for the courts, the court building itself of the 1930s—the extraordinary building flanking Union Station as the Post Office does to the West.

Now comes the Federal Triangle Building, where worked stopped in 1931. The contract has been let for that, with the firm of I.M. Pei and Fried as the architects, that building will have two thirds the office space of the Pentagon, the second largest building we ever built and by virtue of owning the land, the rents are at lower than commercial rates immediately, and at the end of 30 years, we own these buildings, and these are not disposable buildings. These are proper 150 year buildings.

In New York City we are going to build a new courthouse and a new office building in cooperation with the city, which is giving us the land. That court, in New York, was built for 14 judges, it now has 60; normal progression half a century later.

We had hoped a larger program would do. Evidently that is not the view of the Administration, and if it is not, I have said to Mr. Darman, we will do it your way, but I guess I would like to hear why you think otherwise, if indeed you do.

Can we call Mr. Austin. Councils would you come foreword, sir, and I believe, this is the first time that you have been before the committee, and I wonder if Mr. Diefenderfer could do us the courtesy of joining, and Mr. Stevens. I don't want to keep you. We will

just hear your testimony, Mr. Austin. You are first as this is your principle responsibility.

Mr. Diefenderfer, as is your custom, we welcome back to the Hill on all occasions, and Mr. Stevens, we are very happy that you have been able to come over from the GAO, keeping an eye on these matters and helping us think our way through this. Everyone's statement will be included in the record. Read if you like, summarize if you like, go forward exactly as you wish.

Good morning, Mr. Austin, you have a very special welcome to you.

STATEMENT OF RICHARD G. AUSTIN, ACTING ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION

Mr. AUSTIN. Mr. Chairman, thank you for the opportunity to be here this morning.

I would like to ask, with your permission, Mr. Chairman, that my statement be included in the record.

Senator MOYNIHAN. All statements will be.

Mr. AUSTIN. I would like to make a brief visual presentation to you, Mr. Chairman, on the Federal Buildings Fund's fiscal year 1991 budget and the least-cost financing proposal.

Senator MOYNIHAN. Do you want to do that in a way that the audience can share in it?

Mr. AUSTIN. If we could locate the charts up there——

Senator MOYNIHAN. Would you? Then we will know what we are doing here.

I have a visual, so this will work out just fine.

Mr. AUSTIN. Mr. Chairman, the Federal Buildings Fund budget request for fiscal year 1991 is $3.8 billion. $2.7 billion, or 70 percent, will be needed for our operating programs. We have broken operating programs into two pieces in the pie chart,—"Rental of Space" and "Other Operations," in order to show you the impact of leasing costs. This $1.5 billion activity consumes more of our resources than any other program.

The remaining $1.156 million are programmed for our Capital Budget. This includes $271 million for the construction for new Government-owned buildings, $572 million for repair and alterations to our existing buildings, $176 million for design and construction service, and $136 million for payment of principals, interest, and taxes on buildings that were financed in past years.

[Chart follows:]

Fiscal Year 1991 Budget

Federal Buildings Fund Program
($ 3,819 Million)

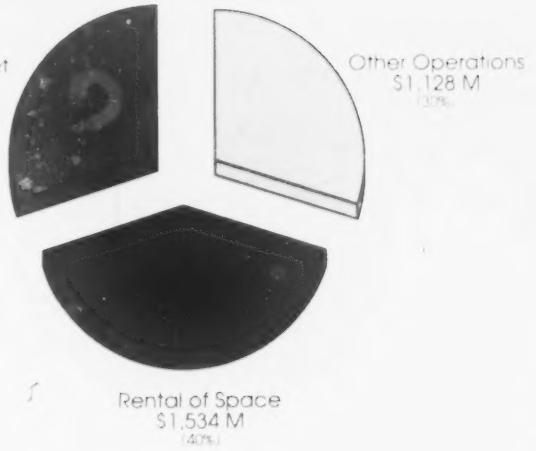


Chart 1

Mr. AUSTIN. The next chart, Mr. Chairman, I would first like to focus on the rental income that is the foundation of our budget.

Senator MOYNIHAN. That usage of the term income.

Mr. AUSTIN. Sir?

Senator MOYNIHAN. Isn't that an outlay?

Mr. AUSTIN. Actually, sir, it is income through the revolving fund.

Senator MOYNIHAN. Oh, that is what you receive as GSA from the agencies who occupy the space.

Mr. AUSTIN. Yes, sir.

The rental income which is the foundation of our budget. Since the creation of the Federal Buildings Fund in 1975, GSA has charged tenants Rent for the space that they occupy in our facilities. In fiscal year 1991, GSA is presenting two initiatives that will bring our rental income closer to commercial equivalency, as intended by the legislation that authorized the fund. The first initiative revises the way we set Rent rates. At the beginning of each five year Rent cycle, we contract for commercial appraisal of all buildings. That appraisal is the basis for Rent rates for the next five years. In order for us to keep current with commercial equivalent rates during the four years between appraisals, we are increasing the base Rent rate by the actual change in the Consumer Price Index. Prior to the fiscal year 1991, GSA was permitted to pass through only 25 percent of the change in the Consumer Price Index. This caused our Rent rates to lag behind market rates. The 100 percent adjustment in fiscal 1991 will result in an additional $80 million in income. As this chart demonstrates, for the next five year rent cycles, 1992 through 1996, the change will generate an aggregate of over $800 million in additional income. The majority of this increased revenue will go directly into our capital budget.

[Chart follows:]

Fiscal Year 1991 Budget

Rent Income

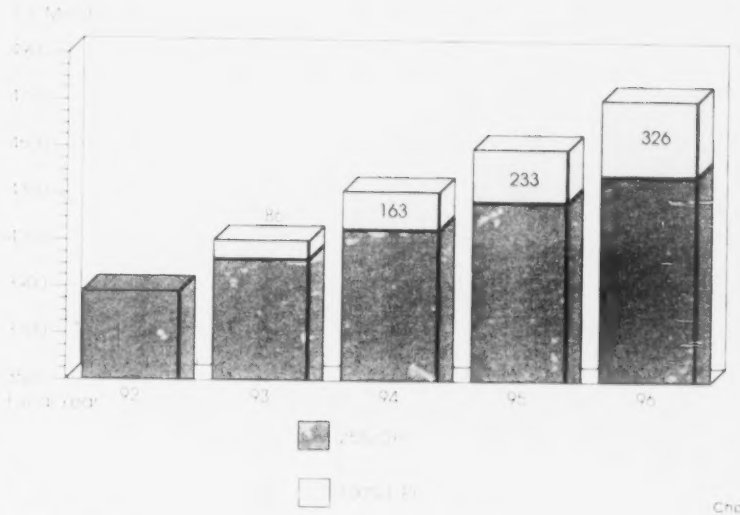


Chart 2

Mr. AUSTIN. Our second income initiative is reflected in the new language we have proposed for 1991 Appropriation Act. It is intended to eliminate the caps that have been placed through appropriational language on rental payments from selected agencies. The proposed language authorizes a direct appropriation to the Federal Buildings Fund equal to the value of income lost by the creation of a Rent cap. It further provides that the Congressional Budget Office will score the budget authority and outlays against the Appropriation Subcommittee imposing the Rent cap. We hope this mechanism will eliminate such rent caps.

Senator MOYNIHAN. Mr. Austin. Just for the record, when you speak of these matters, you are basically talking about the internal accounting arrangements of the Federal Government. This is all a question of moving resources from one agency to another.

Mr. AUSTIN. Ostensibly, yes.

I would, Mr. Chairman, with your permission, like now to focus on our capital budget. As we have stated in previous discussions with this subcommittee, maintaining the Federal Government real property infrastructure is a top priority of GSA.

This chart shows the age distribution of 1600 Government-owned buildings in our inventory. Fifty-three percent of the buildings are more than 40 years old. Many of these buildings, as well as those in the 20 to 30 year range where the initial building systems have reached the end of their useful life will require major modernization over the next five years. You can see, from these charts that we have constructed or purchased very few new buildings within the past 10 years because of resource constraints.

[Chart follows:]

Fiscal Year 1991 Budget

Age Distribution of Owned Buildings

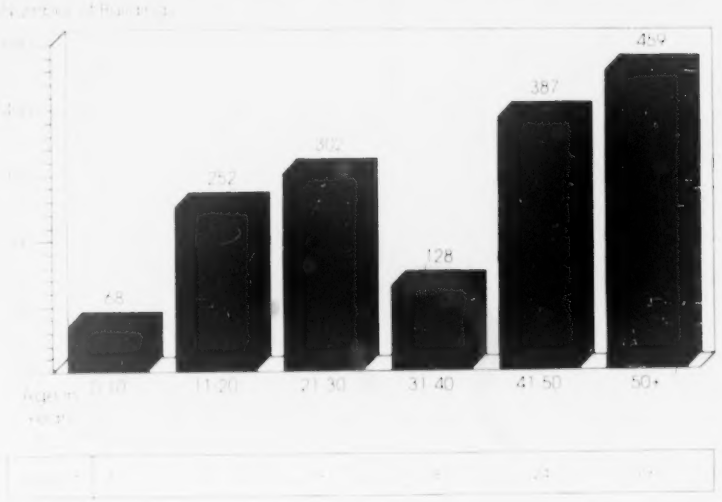


Chart 4

Mr. AUSTIN. In fact, Mr. Chairman, if you look at the actual numbers even though we have generated 6.6 million square feet of new Government-owned space in the past 10 years, actually the net increase was only 3.9 million square feet of new space. At the same time our leased space inventory increase was 4.1 million square feet, approximately 200 thousand more than what we actually built during that——

Senator MOYNIHAN. Can I show you in that bar chart the consequences of that committee they unlikely termed the ad hoc Committee on Federal Office Space. If you see the age period 31 to 40, those were at the decade of the 1950s when building just stopped. Then there was a spurt when we got going again under President Kennedy and it quickly hit the Viet Nam War, went down in the 1970s, and then we hit the present budgetary crisis and the new buildings just disappeared in the 1980s. The ones you saw—the 41 to 50 are very simply the wartime buildings. We built the pentagon, and you can see your political history in that bar chart.

Mr. AUSTIN. Very much sir.

The next chart, Mr. Chairman, shows GSA's commitment to repair and modernization of the buildings in our inventory. Since fiscal year 1988, which was the first year in a long time that GSA was able to charge full commercial Rent rates, funding for this program has increased significantly. We have undertaken several major health and safety initiatives, such as the removal of equipment containing Polychlorinated Biphenyls, or PCB, asbestos abatement and containment in buildings where such action has been appropriate, and the installation of fire sprinkler systems in high rise buildings.

[Chart follows:]

Fiscal Year 1991 Budget

Capital Investment

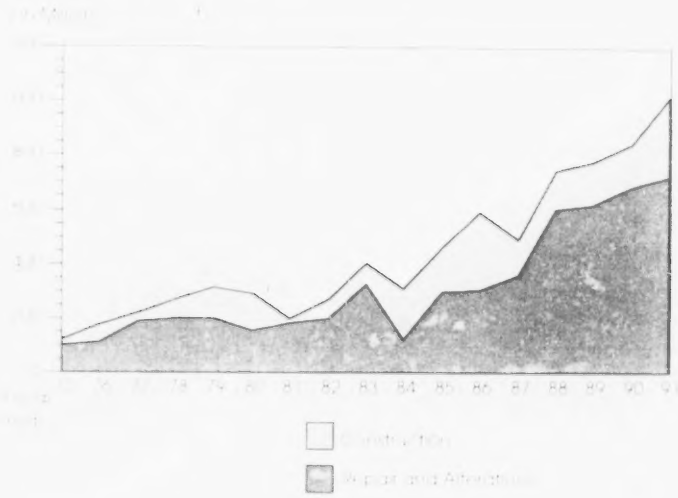


Chart 5

Mr. AUSTIN. The chart also shows that, after funding necessary repairs and alterations, there has been relatively little money left for construction or purchase of new Government-owned space. The fiscal year 1991 construction program is almost exclusively devoted to addressing the expansion requirements of the U.S. Courts, and will not provide for the replacement of costly lease space.

Mr. Chairman, on the next chart, as you saw on the first chart, the Rental of Space budget will reach over $1.5 billion, or 40 percent of our budget, in fiscal year 1991. This is approximately four-and-one-half times the cost of this activity in the first year of the Federal Buildings Fund, when Rental of Space was only $338 million. This growth is, in a large measure, attributable to the growth in GSA's inventory. GSA's office space inventory has doubled since 1964. Due to limited resources for new construction or purchase, much of this growth has been met through increased leasing.

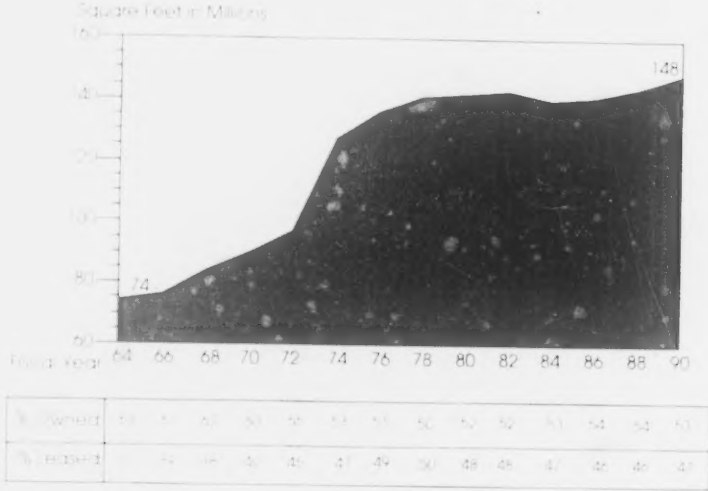
In 1964, 63 percent of our office space inventory was owned and 37 percent was leased. By 1978, owned space reached a record low of 50 percent. From 1978 through 1985, GSA was able to briefly reverse this trend in part due to the 1972 Purchase Contract financing program. However, since 1985, the ratio has again moved towards increased reliance on leased space.

[Chart follows:]

Offset folio 32

Fiscal Year 1991 Budget

Total Office Space Inventory



% Owned	58	57	60	60	58	53	51	50	52	52	53	54	54	53
% Leased	42	43	40	40	42	47	49	50	48	48	47	46	46	47

Chart 6

Mr. AUSTIN. The space requirements of GSA's client agencies have continued to grow, while available resources for construction of Government-owned space have remained limited. If an additional source of financing for construction can not be provided, GSA will be unable to make any significant progress toward cost- effective Government ownership.

Mr. Chairman, the next chart. In order to address this crucial issue, last summer GSA and the Office of Management and Budget conducted a joint Federal Real Property Study. The study team identified 21 construction projects totaling $3 billion, all representing——

Senator MOYNIHAN. Mr. Austin, would you help me. The charts are numbered in my table, but I don't know which——

Mr. AUSTIN. Number seven. Chart seven.

[Chart follows:]

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Least Cost Financing

Resource Requirements as of August 1989

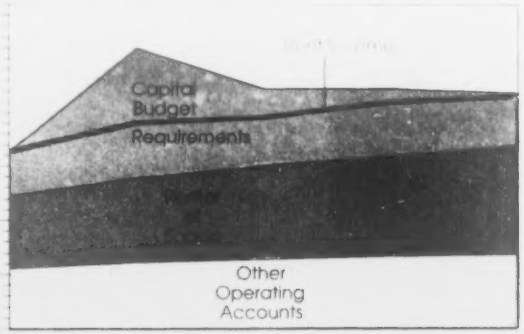


Chart 7

...

Mr. AUSTIN. Yes, sir. I am sorry. The study team identified 21 construction projects totaling $3 billion dollars, all representing long-term stable requirement for Federal occupancy, that should be initiated between 1991 and 1993. The study team also estimated that only $500 million dollars worth of new construction could be financed from the resources of the Federal Buildings Fund during that same period of time. This left a shortfall of $2.5 billion.

This chart summarizes the study team's findings. The sections shaded in green represent GSA's capital budget requirement as of August 1989, for repairs and alterations and new construction. The dark line that bisects the green section represents projected Rent income. The section that rises above the Rent income line represents the $2.5 billion shortfall.

The next chart, Mr. Chairman, chart eight. These 21 projects are identified in the study. As shown in this chart, the project to provide replacement space for the headquarters of the Environmental Protection Agency was authorized for lease-purchase in fiscal year 1990 Appropriation Act. Eight projects, valued at $269 million, have been included in our fiscal year 1991 budget for direct Federal construction. For the remaining 12 projects, we continue to estimate that an additional $231 million from the Federal Buildings Fund will be available for Direct Federal Construction in years 1992 and 1993. The balance of the funding must be provided through the proposed Least Cost Financing program.

[Chart follows:]

Least Cost Financing

Proposed $3 Billion Program

Project/Location	Program Status
Environmental Protection Agency, Washington, DC	Previously Authorized
U.S. Courthouse, Kansas City, KS U.S. Courthouse, Alexandria, LA U.S. Courthouse, Prince Georges County, MD U.S. Courthouse, White Plains, NY U.S. Courthouse, Minneapolis, MN U.S. Courthouse Annex, Portland, OR Social Security Building, U.S. Courthouse, Baltimore, MD U.S. Courthouse, Alexandria, LA U.S. Courthouse, Morgantown, WV	$ 269 Million has been funded in FY 1991 through Direct Federal Construction
Department of Transportation, Washington, DC Department of Justice, Washington, DC Department of the Navy, Northern, VA Internal Revenue Service, Gaithersburg, MD VA Headquarters, Washington, DC Federal Building, Courthouse, Shreveport, LA Foreign Claims Settlement Commission, Washington, DC Federal Bureau of Investigation, Metro Area Federal Building, Nevada, NV U.S. Courthouse Annex, Charlotte, NC Department of Defense, Metro Area U.S. Mexico Border Station, Arizona	An additional $231 Million will be funded through Direct Federal Construction in future years. The balance is proposed for Least Cost Financing.

Chart 8

Mr. AUSTIN. While these projects, Mr. Chairman, represents the results of last year's study, every changing requirement, such as the proposed new courthouse in Boston, Massachusetts, will continue to place financial pressure on the limited resources of the Federal Buildings Fund.

Chart number nine, Mr. Chairman. By implementing the Least Cost Financing program, in addition to the construction of the seven GSA controlled buildings that have already been authorized for lease purchase, we will be able to make a significant reduction in the future costs of leased space.

[Chart follows:]

Least Cost Financing

Rental of Space Costs

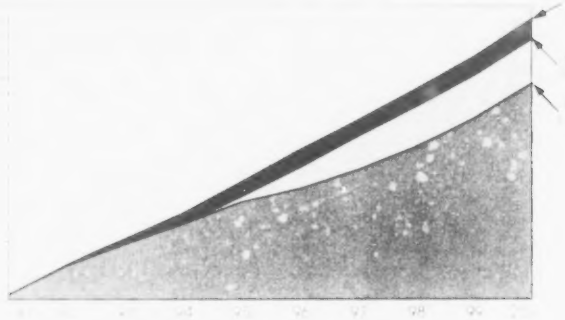


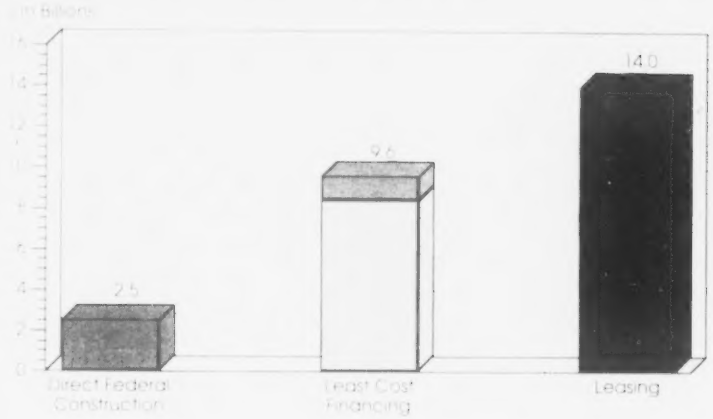
Chart 9

Mr. AUSTIN. The top line of this chart projects Rental of Space cost if we must continue to satisfy our clients space needs through leasing. The area shaded red represents rental cost avoidance resulting from construction of the seven currently authorized lease purchase projects, approximately $200 million each year by the year 2000. The area shaded yellow represents rental cost avoidance for the proposed Least Cost Financing program, an additional $300 million each year by the year 2000. Together they will save $500 million each year in the Rental of Space costs.

Mr. Chairman, chart 10. To further illustrate the cost effectiveness of Government ownership, this chart compares the 30 year cash outlay for $2.5 billion of new space under three acquisition methods: first direct Federal construction; second, Least Cost Financing; and third, leasing.

Least Cost Financing

Acquisition Methods
(30-Year Cash Outlay)



Financing options range from $8.4 billion to $9.6 billion

Chart 10

Mr. AUSTIN. Obviously, Mr. Chairman, direct Federal construction is by far the least costly. However, there won't be enough resources available to carry out a program of this size without a direct appropriation to the Federal Buildings Fund. At the other end of the chart is leasing, which, over 30 years, would cost $11.5 billion more than direct Federal construction, a solution that we all recognize as being most undesirable.

The middle bar represents the range of Least Cost Financing options. The lowest cost option is borrowing from the Federal Finance Bank, with outlays of $8.4 billion. At the high end of the range is developer placement, at $9.6 billion. Even under this most expensive option, the Government would still save $4.4 billion over leasing.

If funding for direct Federal construction is unavailable, and the cost of leasing is undesirable, then Least Cost Financing is the Federal Government's best alternative. It would be preferable if we could finance the program at the bottom of the range, rather than at the top. However, that decision is not GSA's to make, it is what all the recent discussions about scoring between the Office of Management and Budget, the Congressional Budget Office, the Senate and House Budget Committees has been about. Nonetheless, even at the top of the cost range, Least Cost Financing will be a better deal for the taxpayers than continued reliance on leasing.

Mr. Chairman, that concludes my presentation, and I would be happy to respond to questions.

Senator MOYNIHAN. And a very clear and straightforward and, to me, elucidating presentation. I congratulate you, Mr. Austin. I guess I still don't know what least-cost financing is, and I have learned from long experience that if there is something you don't understand about financing, you turn to Bill Diefenderfer, and he explains it to you. You don't know this but you are just identified as "Au Diefenderfer", so "Au Deifenderfer"——

STATEMENT OF HON. WILLIAM DIEFENDERFER, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. DIEFENDERFER. Thank you very much, sir. It is a pleasure to be here.

Senator MOYNIHAN. Go to it.

Mr. DIEFENDERFER. I will try to help as you have helped me this morning. I spent a year in Viet Nam and have never been able to——

Senator MOYNIHAN. Never knew how you got there.

Mr. DIEFENDERFER. Never knew how I got there, and a foot of snow is the best explanation I have had to date. [Laughter.]

I will abbreviate my testimony because Dick Austin covered some elements that are common in both sets of testimony. First let me state that the problem that we face is that we need buildings, there is no doubt about that. The OMB/GSA study indicated that and that is just for the area that the GSA supervises. Buildings are needed (non GSA-supervised) in other areas, I am sure, and we are moving forward a construction needs study in that area to get a complete accounting of the building needs of the Government.

Secondly, in the past, OMB and Congress have worked together, Executive Branch I should say, to frustrate the government's ability to build buildings. The Federal Buildings Fund which was established in 1975 was based on the premise that the agencies paying market based rents would provide income adequate both to operate and maintain the existing inventory of buildings and build new facilities as needed.

Over the years, however, combined budget decisions and Congressional actions reduced agency rents well below commercial equivalent levels. For example, in 1975 Congress reduced agency rent payments by 10 percent, raiding the fund for $124 million. In 1976, OMB joined the party in a raid and recommended reducing rates by $290 million, and as late as 1987, OMB through the budget, recommended reducing rates 15 percent at a cost of $427 million to the FBF. Congress agreed and passed OMB's recommendations, and since 1975, the accumulative reduction in rent income to the FBF has been $2.4 billion. It is purely coincidental, but it is of interest that the amount needed to fund these 21 buildings identified in the GSA/OMB study is approximately $2.3 billion.

This reduced funding has had its greatest impact on public building services capital expense activities. It has resulted in the back log of major repair and modernization in existing buildings, and significant deferrals of new construction projects that meet long term space requirements.

Since 1988, PBS has once again been allowed to collect market based rents from the agencies. Although Congress continues to intervene limiting the rent payments from the Department of Transportation and Agriculture, and the FDA to below market rates—this must stop. Despite the loss of $100 million that has resulted since 1988 from this limitation, increases in the rent income are now permitting GSA to reduce the backlog of repair and alteration projects.

The pre-1985 shortfall in the Federal Buildings Fund has forced GSA to lease a number of office buildings where clearly it would have been more economical and efficient to purchase them.

Let me interrupt my prepared testimony to say that when studying this subject, it occurred to me that we have put ourselves in the position of somebody who uses his credit cards for financing and is paying an 18 percent rate. That is the worst case—leasing. It is unfortunate that the Federal Government finds itself in this position.

Senator MOYNIHAN. Well, it is not unfortunate for everybody. You go out into any of the counties around Washington, and every time you see a replica of Mount Vernon, you are looking at a thirty year lease from the GSA for a rather dinky office building on K Street, so some people benefit.

Mr. DIEFENDERFER. I am sure there are some there who benefit. I am not so sure the public in general benefits. [Laughter.]

The pre-1985 shortfall in building funds has forced GSA, as I have mentioned, to lease a number of office buildings when it would have been clearly more efficient and economical to purchase them.

The problems that have been caused by past raids on the FBF where addressed last summer in the joint owned OMB/GSA study

to answer the following question: How much space does the Public Buildings Service need to provide Federal Government agencies in the near future; what part of that space would be more economically provided if it were Government-owned; how much, if anything, must be added to the Federal Buildings Fund to meet these requirements, and what methods might be used to provide for this funding?

In answering these questions, the GSA/OMB Task Force agreed upon criteria for determining where it is more economical to own rather than lease space. These criteria are related to the nature of the needs whether they are long term and unchanging in relation to configuration and location and whether they are cost-effective in relation to the projected state of regional real estate economic conditions. The application of these criteria to existing Federal Buildings Fund requirements facilitates and controls the identification of specific facilities which the Public Buildings Service should seek to own rather than lease.

The task force also had the responsibility for estimating the capacity of the Federal Buildings Fund to permit the construction or purchase of these buildings identified. As stated, we identified 21 buildings, and the Federal Buildings Fund is short about $2.3 billion in their need to meet that need of 21 buildings.

The identification of this shortfall led us to review the alternative ways in which the Public Buildings Service might finance acquisition of these buildings. The Task Force considered both Federal and private financing alternatives.

Federal financing is the most economical way for the Government to finance the acquisition of office buildings. No one can borrow more cheaply than the Federal Government. Up front Federal financing also places the greatest restraints on those in the Executive branch and the Congress who advocate building acquisition. It meets every test of budget honesty, showing the obligations and budgetary commitments of the Federal Government and outlays when made.

Direct Federal acquisition and financing also gives the Government complete control over building location and design. Local government restrictions, and State, and local taxes are less important concerns in direct Federal acquisitions, than they are in other forms of acquisitions.

On the other hand, it is difficult to come up with direct Federal financing in times of budget constraint. Direct Government financing of the 21 buildings requires additional budget authority of $2.3 billion; $1.4 billion more in fiscal year 1991; $450 million more in fiscal year 1992; and $450 million more in fiscal year 1993. These would also count toward the Gramm/Rudman Deficit Calculation purposes.

We need outlays of about $41 million in fiscal year 1991 to pursue the 21 building required. I might interrupt in this point in time to say, that because this hearing focused our attention on this issue, the Administration does intend to send up a budget amendment in the next several days that would allow funding in fiscal year 1991 the beginning construction of these 21 buildings.

Senator MOYNIHAN. Will the EPA buildings and the ones requested in 1991. Will those be the ones?

Mr. DIEFENDERFER. It's the list of the 21 which is attached to my testimony, sir, and I believe the EPA building is on that list.

Senator MOYNIHAN. Oh, I see. This will be in your amended fiscal year 1991—so all of them will be in there at some level.

Mr. DIEFENDERFER. Now that does solve the problem at one level. It is the Administration's commitment to meet these needs and to recognize them in our budget. It does not solve another problem which you and we face together, the need for buildings is a shared need, which is to convince the appropriations committees to so spend the money. There are competing needs, but in the past, at least, the Administration has not been as aggressive as we now intend to be on seeking funds for building.

Alternative private financing—there were very few alternative private financing schemes until 1988. However, ten such arrangements have been legislated over the past three years. These arrangements generally provide for the Government to enter into 30 year contracts, with the Government eventually acquiring ownership. In each case, the statutory language leads us to score budget authority incrementally over the life of the lease. This statutory scoring was opposed by the Executive Branch as costing the Government more, understating current budgetary consequences, and undermining budget discipline in this area. These accounting gimmicks join dozens of others in masking the true size of the Federal deficit, thus understating our future financial obligations.

At the same time, it should be noted that, in a period of tight budgetary constraints, these arrangements have permitted the Government to acquire needed buildings much more efficiently than through short term lease. That is what Mr. Austin referred in saying that leasing is the most expensive form of financing. So called "Least-cost financing," where the Federal Government commits to a long term lease and lends its full faith and credit in order to drive down interest costs, is the next most expensive, outright purchase is the least costly to the Government.

Whatever the details of these private financing arrangements, they are in essence just another way for the Government to acquire buildings. In particular, new "securitized" arrangements are "risk" free to the private investors. Thus, when we reviewed the details of the securitized arrangements, we scored them in the same manner we would score any other Government purchase. As a result, the scorekeeping advantage of this private financing was lost, but the slightly higher financing costs of the private, securitized arrangement remained.

Although our current accounting principles rationally treat so-called private "lease-purchase" arrangements as the Government purchases that they really are, this treatment inhibits the acquisition of much needed long-term capital assets.

Senator MOYNIHAN. Could you hold there just a moment, sir? That is the passage that most concerns our committee.

We had thought we had come upon an attractive arrangement in lease-purchase, and you don't think so, and I don't doubt that you are right, but we still don't understand that. I guess we have a feeling that now we will get no buildings. We were doing pretty well there, but the appropriations committee won't find this money, sir. I can't say they won't, but they haven't. Lease-purchase was a rate

with which we have not, to my knowledge, failed in the need. We will here Mr. Stevens on this. Every time we set out to do it we've done it.

Mr. DIEFENDERFER. Well, I understand the dilemma, and there are many programs in a similar dilemma—a shortage of funds.

Senator MOYNIHAN. Could you just tell us your problem, so I can tell our colleagues? We were sort of pleased with ourselves. We constructed the Federal Triangle Building, and the Judiciary Building, and you know it is going to happen, they have already got graffiti on the walls of the boys room. [Laughter.]

Mr. DIEFENDERFER. The problem that we have is distinguishing this from any other Federal debt, particularly the most recent lease-purchases in which the full faith and credit of the United States is pledged. When we borrow to build a building, pledging the full faith and credit of the United States, if the BA is scored up front, the outlays are scored as the building is built over three or four years.

In this instance, we have the same obligations of the Federal Government, but the request to have it scored differently, and we don't see that there is a distinction other than the fact that it helps us build buildings in and around an accounting system that has been relatively inviolate.

Senator MOYNIHAN. Is this a decision driven by the technicalities and the integrity of a particular accounting system as against a procurement need?

Mr. DIEFENDERFER. I believe it is more driven by the integrity of our budget process.

Senator MOYNIHAN. Integrity of the budget process?

Mr. DIEFENDERFER. Yes.

Senator MOYNIHAN. Well, I'm going to accept your judgement, I am not going to tell you otherwise, but we are not going to get any other buildings.

Mr. DIEFENDERFER. Well, I guess that is one possible assumption, and maybe we won't, but I can harken back to just last year when we decided that we were going to spend more money out of the airport trust fund. A similar criticism was put forward, "well just because you propose it that appropriation subcommittee which is in a 302(b) bind, is not going to give more even though you have asked for more. Therefore we are not going to spend the money that is needed from Airports Trust Fund."

We went up and negotiated with that subcommittee and got not everything we wanted, but we got about $150 million more toward our objective. I at least want to try that. I want to be able to go up and make these arguments with the Appropriations Subcommittee, that we do need these buildings, that we have found room, or we will have found room in our budget when we send the promised budget amendment up. Our construct of the budget will fund them, and that we think that the subcommittee ought to also. Now if they ignore our request or decide it is not their most pressing need—then, you are right, the buildings won't get built. I think we deserve a chance to try to convince them that these buildings should be built and should be funded in the regular manner, and that is at the least cost to the Federal Government.

Senator MOYNIHAN. All right, sir. I just wanted to get that clear. I don't want to prolong this, but, I had a discussion with a predecessor from OMB about two years ago, because somebody down in OMB didn't like what we were doing and GSA knew that and—you know, we have $1.1 billion worth of Federal space going up in Washington right now, and we never would have had it otherwise. You take the State Department from 128 locations to three, things like that which have consequences institutionally. This gentleman came to see me, and I talked with him, and I finally asked him. I said, is it your concern that under this lease-purchase arrangement we are going to end up with 435 Federal Office buildings, is that what you are really concerned about? He didn't say, no. Is there some element of that? That you feel we will get too much?

Mr. DIEFENDERFER. I wouldn't put too much weight on that. There is some element of that that if you make it easy to get credit or to spend money, people generally go spend money.

Senator MOYNIHAN. True.

Mr. DIEFENDERFER. But I am not among those who think that there is no discipline in the Congress, that we cannot have a reasonable process. There is an element of that, but that is not the overwhelming fear that drives my view of this.

Senator MOYNIHAN. But I do have to say to you that it was back—how many years ago was it that Senator Stafford was saying, Gosh it is $1 billion and now it is heading for two, and the minute those building go up you save money, because the office space is cheaper——

Mr. DIEFENDERFER. And that is exactly right, and I can only say that two or three years ago, and I would have to guess, I haven't researched it, that you didn't find that same Administration official, that same OMB willing to back up in their budget resources to build these buildings. Generally in the past I am told, OMB said we don't like lease-purchase, and there is not enough money to build the buildings.

Senator MOYNIHAN. That's right. No, no, you could not be more explicit. They would not have lease-purchase and they would not pay for any.

Mr. DIEFENDERFER. That is what I consider to be an indefensible position, because then you do drive yourself to leasing, which is the most expensive and the least responsive to good stewardship of the public's money.

Senator MOYNIHAN. So we are going to await, watch how you do with the Appropriations Committee.

Mr. DIEFENDERFER. And there is one other thing which is the last page of——

Senator MOYNIHAN. Please.

Mr. DIEFENDERFER. This issue is not an issue that people take lightly at OMB. There are strong-felt views on both sides of it, and because of that, we are under instructions and pursuing them, I think, in a vigorous manner, to explore—alternative scorekeeping systems. I can't promise anything. We want to both maintain the integrity of the existing scoring system and also recognize the capital nature of these buildings.

We don't think the lease-purchase agreements do that. We are exploring a system that would spread the outlay cost of acquiring a

building over its useful life, and of course as you know, outlay costs are what trigger Gramm/Rudman/Hollings, and finance the building through the Treasury, which gives you the least-cost financing, the smallest amount, and be consistent with current cash score-keeping principals. I wish we had been able to say we could do this by today, but there are still some elements of which we are unsure, so we will not only pursue building of these buildings, which we are committed to through the appropriations process and through our budget, we will continue to explore score keeping systems that do not risk the integrity of the budget process, what is left or what we are trying to bring back into it.

Senator MOYNIHAN. I didn't say that.

Mr. DIEFENDERFER. No, but we all have to acknowledge it. We have for years built up these little gerrymandered systems, and this is one of them. It is to get around the problem that we have more or less brought on ourselves and we have to find ways around them—ways that are more costly and lead to less forthright presentation of the budget. So we are working on this alternative score keeping, and we will keep you and your staff advised on a weekly basis as to what we are doing and how we are proceeding.

Senator MOYNIHAN. A quarterly basis will do.

Mr. DIEFENDERFER. Well, we may get it in a couple of weeks, so I close there, sir.

Senator MOYNIHAN. Thank you very much. Is there any possibility of going to a capital budget arrangement in terms of our infrastructure.

Mr. DIEFENDERFER. Yes, sir.

Senator MOYNIHAN. I am sure you are interested in that too. Mr. Stevens, it is very thoughtful of you to come. We welcome you.

STATEMENT OF L. NYE STEVENS, DIRECTOR, GENERAL GOVERNMENT OPERATIONS ISSUES, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. STEVENS. Thank you very much, Mr. Chairman.

I will summarize what is a very lengthy prepared statement—

Senator MOYNIHAN. A very good one, if I may say so.

Mr. STEVENS. Thank you very much—and emphasize that in many points it does correspond with what Mr. Austin and Mr. Diefenderfer have said, and at a few points it is different, so I will try to hit those.

From our perspective, Mr. Chairman, the Government has neglected for the last two decades the need for capital investment in modern working space for its employees, both in repairs and alterations and in new construction. Available evidence suggests to us that this was short sighted, that it is affecting agencies' mission accomplishment as well as the morale and productivity of its employees, and at this point, a major infusion of Federal funds is required to compensate for this neglect.

A classic case of this, Mr. Chairman, it seems to us, is the case of the 48 year old Pentagon and the estimated $1 billion that is going to be needed to bring it up to acceptable standards. It has also led to a costly dependence on lease space which we spent some time discussing. In the past 20 years, as Mr. Austin pointed out, leased

space has doubled. The ratio has risen from 39 to 47 percent. The costs are approaching the $2 billion range from a level of about $389 million just 15 years ago.

More and more of these revenues that could be used to finance capital investments are being siphoned off to pay these spiraling lease costs. One consequence of the disinvestment that hasn't been mentioned before is that more and more tenant agencies of GSA are perceiving their space, as well as the facilities management program of GSA, to be detrimental to their mission accomplishment, and they are attempting to go it alone. For example, the Pentagon is breaking away from GSA and the courts themselves are making a serious bid to do the same thing.

On the basis of three reports that we did for you and three of your colleagues, Mr. Chairman, we have identified what we think are five fundamental obstacles that stand in the way of an effective Federal buildings policy. I would like to just briefly enumerate them.

First, GSA still lacks a strategic concept of its public buildings roll. Because of its historic predilection towards direct operations, GSA has developed a practice of thinking and planning on a short-term, project-by-project, transactional basis that still persists today. It lacks a comprehensive plan that promotes strategic thinking about the proper mix of owned versus leased buildings, and that it identifies and prioritizes total short and long term Federal space needs as well as the most economical way of meeting them.

One effect of this is that it has encouraged others, including as you have mentioned, Mr. Chairman, individual members of Congress and OMB to substitute their own agendas, and it has also hampered Federal oversight and decision making on public buildings.

As a current example, the 21 new construction projects that we have been discussing that GSA and OMB have proposed, didn't emanate from any kind of a strategic plan. They were projects, more or less, on the shelf, and Congress doesn't have any means to judge whether the proposed projects meet the highest priority needs or whether the creative financing techniques that GSA is proposing are worth the added cost. Mr. Austin mentioned the Boston Courthouse as a possible addition to the list, or substitution. There is no way for you, Mr. Chairman, to compare that with the Kansas City Courthouse, or the Sacramento Courthouse that are also on the list, but Boston is not.

Senator MOYNIHAN. The seniority of the Senator. [Laughter.]

Mr. STEVENS. You said it, sir.

Senator MOYNIHAN. It's infallible.

Mr. STEVENS. The second of these points is as our general management review and other reports have consistently pointed out, that GSA has pervasive management systems problems which seriously inhibit its ability to manage public buildings effectively.

Its information systems supporting public buildings activities do not produce reliable, accurate and timely information that would be needed to support the kind of strategic planning that we have been talking about.

A third obstacle that has not been talked about, Mr. Chairman, is the Congressional prospectus authorization process. I won't say a

great deal about that except to note that it forces both GSA and the Congress to think on a transaction by transaction or project by project basis since each prospectus stands on its own and is not related to an overall goal or to other competing projects.

The fourth obstacle is one that has been mentioned to a substantial extent. That is the shortfall in the Federal Buildings Fund, that it has not met its expectations to provide revenues for capital investment. The periodic restrictions on rent are largely the cause of that.

And then finally, in our view, the most important obstacle is the inherent bias against capital investment that is built into the current budget process. You are well aware of that, Mr. Chairman, as your dialogue indicated, so I won't go into any detail on it.

Senator MOYNIHAN. No, do stay there—we are going to close at 11:00 a.m., but there is time for Mr. Diefenderfer to hear this from you, Mr. Stevens, so say it again.

Mr. STEVENS. I'll turn to my prepared statement and——

Senator MOYNIHAN. I'll read it. Ideally, Congress should eleminate the current bias against Federal ownership of office space by restructuring the current Federal budget to include that capital component as we have recommended before.

Mr. STEVENS. Yes, sir.

Senator MOYNIHAN. And it is true of bridges, it is true of airports, and, if we are wrong, you are going to have to tell us. We can't initiate this. Go ahead, Mr. Stevens.

Mr. STEVENS. Well, basically, as you are aware, the current budget process places capital investment at a distinct disadvantage to any kind of short-term outlay like leasing——

Senator MOYNIHAN. Or not building.

Mr. STEVENS. Or not building, that is true, Mr. Chairman.

Senator MOYNIHAN. We will always house our employees, but we will not necessarily build capital transportation facilities.

Mr. STEVENS. The Comptroller General has spent a great deal of time talking about a capital budget. We have a report specifically on that that is referenced in my statement, and I would be glad to carry on more of a dialogue if you would like.

In response to one of our reports, Mr. Chairman, both GSA and OMB have agreed to take a first step towards this by putting the Federal Buildings Fund on a capital basis for display purposes in the fiscal year 1991 budget. We applaud that, and I do think it is distinctly a step forward.

Senator MOYNIHAN. Do you want to take a moment? I don't want to keep you—all three of you are very busy persons, but do you want to take a moment to respond to that?

Mr. Diefenderfer?

Mr. DIEFENDERFER. As was mentioned, we do have our first exposure to capital budgeting in this fiscal year 1991 budget. I think the problems are just so much more elemental. We can talk in terms of capital or not capital in the short term, but essentially what happens in the subcommittee is that they would rather spend, rather than build buildings, they would rather spend money on more human undertakings.

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I don't think that that is a matter that we should necessarily completely and totally remove from the normal conflict process for how money is allocated and how it is not allocated.

You could devise a capital budget which was completely to the prejudice of human need. I am not saying we would do that, therefore, I think that there is some health in this competition. What we are saying is that if we cannot get from the Executive Branch within a certain point in time or from the Legislative Branch within a certain point in time a rational undertaking of allocation of resources, to protect ourselves from ourselves we have to design some other system of accounting, such as a capital budget. It may be necessary, and I would say that we are looking very seriously at capital budgeting for this very problem.

Senator MOYNIHAN. I'm sure, Mr. Austin, you agree?

Mr. AUSTIN. Very much so, sir. In fact, we are prepared to start on the second part, in fact we have split the 1991 budget, for presentation purposes, in terms of capital and operating. We are also preparing, in our 1992 Budget proposal, to separate our income into both capital and operating activities.

Senator MOYNIHAN. Can I just sum up by saying that this Senator—and maybe I have different views than others on the committee, and they may prevail—is quite prepared to accept, with some measure of disappointment, the judgement of the Administration to go this new route. We would have seen more results quicker the other way, but there you are.

We do sit here, I'm now 14 years on this committee, talking about infrastructure, talking about disinvestment, talking about the economics of maintaining a public infrastructure—the economy makes money that way. We don't lose money when we started paving roads, transportation got cheaper.

We don't make much progress. Time perspectives are long and the subject got into disrepute. What was, in fact, the nobelist of enterprises, public improvements/internal improvements, became known as—rivers and harbors became known as pork, and the next thing is you thought you could do without it. Keep going, and we will find out if we can do without it.

I would have hoped there would have been a higher level of attention of the great honor and dignity of this enterprise. I have read, since 1961, and since 1969, there have been 17. They have an average tenure of 14 months. Mr. Austin, we hope you will break it. You can't have a man on the job for only 14 months and be on top of GSA.

Our Corps of Engineers, the greatest body of engineers in the world, in the 1980s—take us back to the old EOB if you will, Mr. Diefenderfer—in the 1980s, the Corps of Engineers for about four years there, carried out more construction in Saudi Arabia than they did in the United States.

They built 87 mosques. I said to General Hatch, it should be the principal that the Corps of Engineers does anything once, and maybe five times until they get the hang of it, but not 87 mosques—on which note, let me thank you all. Thank you, Mr. Stevens, in particular for the assistance you have given to us.

Mr. Austin, I want to say what an honor it is. We don't have Mr. Diefenderfer with us often.

We look forward to that judgement. I have a number of questions that I would like to address to you, Mr. Austin, as do my colleagues, Senators Reid, Chafee, and Burdick, we also have opening statements for the record from Mr. Symms and Mr. Chafee.

[The statements referred to follow:]

OPENING STATEMENT OF HON. JOHN H. CHAFEE, U S. SENATOR FROM THE STATE OF RHODE ISLAND

Mr. Chairman, this morning we are here to review the budget and operation of the General Services Administration's public buildings program. I welcome our witnesses and would like to make a few general comments regarding Federal space requirements.

It is evident that the Federal Government must explore various methods of building acquisition if it is going to replace its aging inventory and provide quality work space for federal employees. As you know, GSA has advised Congress that the cost of currently leased office space will increase substantially in the next few years, rising to almost $2 billion in the mid to late 1990's.

This is not to say that the Federal Government should abandon the practice of leasing space and own every building it occupies. But certainly if the requirement for space involves a federal function whose mission, delivery of services and location makes it unlikely that a different building would be needed in the foreseeable future, then the government should explore the ownership option.

Unfortunately, in recent years, GSA has had little flexibility in providing space. And that is due primarily to two factors. First, the Federal Buildings Fund does not generate an adequate level of funding to provide for long term space requirements. Second, because the government is faced with large up-front budgeted costs in new construction, leasing becomes an attractive alternative, since only one year's lease costs need be recorded in a given year.

The time has come, however, to look at the financing of this nation's infrastructure, and especially our public buildings in a long-term perspective, recognizing the value of a capital investment. I am especially interested in Mr. Stevens' testimony and his recommendations for long-term planning at GSA. Planning is the key to successful management of the public buildings program. I think my colleagues will agree that there is a real concern among some Federal officials that their space needs are not being met in a timely and satisfactory manner. In fact, the Administrative Office of the Courts has proposed acquiring the authority to provide space accommodations for the judiciary, independent of GSA.

This brings me to my final point. And that is, we must be careful not to decentalize the building program to the point where the federal government is duplicating services with the establishment of a mini-GSA at every agency. Of course, the situation with the judiciary is a somewhat different matter in that we are dealing with a separate branch of government. Nevertheless, if agencies chip away at GSA's public buildings authority, it could lead to instances where the GSA and a particular federal entity would be competing for the same space, thus, driving up the cost to the taxpayer.

Again, Mr. Chairman, I stress the need to look beyond a project by project perspective and focus on the long-term space needs of the federal government.

OPENING STATEMENT OF HON. STEVE SYMMS, U.S. SENATOR FROM THE STATE OF IDAHO

Mr. Chairman, I'm pleased we're here today to receive testimony on GSA's public buildings budget and to hear the Administration's views on the proposed lease-purchase funding for the construction of certain public buildings. I want to welcome Mr. Austin and Mr. Stevens to the Committee, and I'm particularly pleased to have my friend, Bill Diefenderfer, back on the Hill making what I believe is his first appearance at the Environemnt & Public Works Committee.

Let me just say I support the proposed lease-to-ownership arrangements for the construction of federal buildings where it's clear there is a long-term need for space in a specific area. I think it moves us closer to a capital budgeting mechanism for investment in this limited number of federal buildings wheer the long-term need for space is clear.

However, if all the costs aren't accounted for "up front", there is a legitimate concern that crafty Members of Congress may find it easier to get new federal buildings in their state or district and soon we'll have unneeded, federally-owned buildings popping up all over the country with the bill to be paid by taxpayers of the next generation. I hope if we move ahead with lease-purchase agreements that this Com-

mittee and the Administration will take a blood oath to oppose the lease-purchase construction of any buildings where here is any dispute about the long-term need for that office space.

Thank you, Mr. Chairman.

Senator MOYNIHAN. To show you that the spirit of internal improvement is not altogether from our land, my questions will directly concern the question of, when are you going to do something to provide adequate customs facilities at the Peace Bridge in Buffalo, New York, where trade is booming owing to the U.S./Canada Free Trade Agreement. Got that?

Mr. AUSTIN. Yes, sir.

Senator MOYNIHAN. There you go. You will get along fine with this committee.

Is there anything that you would like to say in the end, and quite seriously, we have a huge trade program going and a little bridge and no customs. It is nice. It is good work. I mean, something is working.

Gentlemen, thank you very much. We thank our secretary.

[Whereupon, at 11:20 a.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[Statements submitted for the record and responses to additional questions follow:]

STATEMENT BY RICHARD G. AUSTIN

BEFORE THE SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

SUBCOMMITTEE ON WATER RESOURCES, TRANSPORTATION AND INFRASTRUCTURE

TUESDAY, MARCH 20, 1990

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, IT IS A PLEASURE FOR ME TO APPEAR BEFORE YOU THIS MORNING TO DISCUSS THE FEDERAL BUILDINGS FUND FISCAL YEAR 1991 BUDGET AND THE PROPOSED "LEAST-COST" FINANCING APPROACH TO INCREASING OWNERSHIP OF FEDERAL FACILITIES.

WE ARE REQUESTING $3.8 BILLION IN NEW OBLIGATIONAL AUTHORITY FOR THE FEDERAL BUILDINGS FUND, AN INCREASE OF $505 MILLION OR 15% OVER FISCAL YEAR 1990.

OUR CAPITAL BUDGET REQUEST IS FOR $1.2 BILLION, A 19% INCREASE ABOVE APPROVED FISCAL YEAR 1990 LEVELS. THIS FIGURE INCLUDES $271 MILLION FOR NEW CONSTRUCTION, WHICH IS PRIMARILY DEVOTED TO CONSTRUCTING ADDITIONAL SPACE AND FACILITIES FOR THE U.S. COURTS. WE ARE REQUESTING FUNDING FOR FIVE NEW COURTHOUSES AND TWO COURTHOUSE ANNEXES. MEETING THE NEEDS OF THE U.S. COURTS IS A HIGH PRIORITY WITHIN GSA. ADDITIONALLY, WE ARE PROPOSING THE CONSTRUCTION OF SPECIAL-PURPOSE SPACE FOR THE UNITED STATES GEOLOGICAL SURVEY IN MENLO PARK, CALIFORNIA.

THE LARGEST PORTION OF OUR FISCAL YEAR 1991 CAPITAL BUDGET REQUEST--$573 MILLION--IS DEVOTED TO THE REPAIRS AND ALTERATIONS

ACTIVITY. BEGINNING IN FISCAL YEAR 1988, GSA SIGNIFICANTLY INCREASED THE FUNDING OF THIS ACTIVITY. SUSTAINING THIS LEVEL OF FUNDING WILL ENABLE GSA TO PROCEED WITH THE BASIC REPAIR AND SAFETY WORK NECESSARY TO PROTECT THE GOVERNMENT'S INVESTMENT IN THE FEDERALLY-OWNED INVENTORY, AND TO ENSURE THE CONTINUED SAFETY OF THE OCCUPANTS OF THOSE BUILDINGS. IN THE HEALTH AND SAFETY AREA, GSA IS MAKING MANY SIGNIFICANT IMPROVEMENTS. FOR EXAMPLE, WE ARE ON SCHEDULE TO MEET THE EPA REQUIREMENT FOR REMOVAL OF PCBs (POLYCHLORINATED BIPHENYLS) BY THE END OF THIS FISCAL YEAR. FURTHER, ALL OF THE HIGH-RISE SPRINKLER PROJECTS HAVE BEEN FUNDED FOR DESIGN THROUGH FISCAL YEAR 1990, AND ELEVEN PROJECTS ARE INCLUDED FOR CONSTRUCTION FUNDING IN FISCAL YEAR 1991.

WE ALSO ARE REQUESTING $176 MILLION IN THE DESIGN AND CONSTRUCTION SERVICES ACTIVITY FOR DESIGN, MANAGEMENT AND INSPECTION OF THE CAPITAL PROGRAM, INCLUDING FUNDS FOR THE DESIGN OF 21 PROSPECTUS-LEVEL PROJECTS TO BE CONSTRUCTED IN FUTURE YEARS.

IN FISCAL YEAR 1991, WE ARE REQUESTING $137 MILLION FOR INSTALLMENT ACQUISITION PAYMENTS. THIS ACTIVITY HAS HISTORICALLY FUNDED THE FINANCING OF PURCHASE CONTRACTS AUTHORIZED BY THE PUBLIC BUILDINGS AMENDMENTS OF 1972. COMMENCING IN FISCAL YEAR 1991, IT ALSO INCLUDES LEASE-PURCHASE ARRANGEMENTS CURRENTLY AUTHORIZED BY CONGRESS. WE ARE REQUESTING $5.5 MILLION FOR THE FIRST PART-YEAR SERIES OF PAYMENTS ON THE NEW CHICAGO FEDERAL BUILDING, WHICH WILL BE COMPLETED IN FISCAL YEAR 1991.

THE FISCAL YEAR 1991 RENTAL OF SPACE REQUEST OF $1.5 BILLION PROVIDES FOR OUR CLIENT AGENCIES' EXPANSION REQUIREMENTS AND PROJECTED INCREASES IN COMMERCIAL RENTAL RATES. THE GREATEST INCREASE IN THIS PROGRAM FOR FISCAL YEAR 1991, $116 MILLION, PROVIDES FOR ESCALATIONS ASSOCIATED WITH OUR EXISTING INVENTORY OF LEASES. IN ADDITION, OUR REQUEST INCLUDES $68 MILLION FOR THE PART-YEAR COST OF AN ADDITIONAL 7.3 MILLION SQUARE FEET OF CLIENT AGENCY EXPANSION SPACE, WHICH IS PROJECTED FOR DELIVERY IN FISCAL YEAR 1991. THIS INCREASE IS PARTIALLY OFFSET BY $13 MILLION IN SAVINGS FROM THE PROJECTED CANCELLATION OF 2.6 MILLION SQUARE FEET OF LEASED SPACE.

OUR $1 BILLION REQUEST FOR OUR REAL PROPERTY OPERATIONS ACTIVITY INCLUDES FUNDING NECESSARY TO MAINTAIN OUR STANDARD LEVEL OF SERVICE, AS WELL AS $15 MILLION FOR OPERATION, MAINTENANCE AND PROTECTION OF NEW SPACE ENTERING THE FEDERAL INVENTORY, AND $27 MILLION FOR BUILDINGS RESTORED TO THE FEDERAL BUILDINGS FUND BUDGET WHICH WERE DELEGATED TO AGENCIES UNDER EARLIER "PILOT" DELEGATIONS AGREEMENTS.

FINALLY, THE PROGRAM DIRECTION REQUEST OF $91 MILLION INCLUDES INCREASES OF $18 MILLION FOR PAYMENTS TO GSA'S GENERAL MANAGEMENT AND ADMINISTRATION ACCOUNT FOR CENTRALIZED FINANCIAL SUPPORT SERVICES, AND $7 MILLION FOR COSTS RELATED TO AUTOMATED DATA PROCESSING.

THIS BUDGET REFLECTS GSA'S COMMITMENT TO PROVIDING QUALITY SPACE AND SERVICES REQUIRED BY OUR CLIENTS IN A TIMELY MANNER, THEREBY ENHANCING OUR CLIENTS ABILITY TO ACCOMPLISH THEIR MISSION. AT THE SAME TIME, THROUGH OUR EXPERTISE AND EXPERIENCE, GSA WORKS DILIGENTLY TO ENSURE THAT OUR ACQUISITION OF SPACE WILL ALWAYS PROVIDE THE BEST VALUE TO THE FEDERAL GOVERNMENT AND THE PUBLIC.

IN PURSUIT OF THESE GOALS, WE HAVE INITIATED SEVERAL ACTIONS THAT WE BELIEVE ARE NECESSARY TO ENSURE THE CONTINUED VIABILITY OF THE FEDERAL BUILDINGS FUND, WHICH FINANCES ALL OF THESE PBS ACTIVITIES.

FIRST, THE FISCAL YEAR 1991 RENT RATES REFLECT A FULL 100% PASS-THROUGH OF ANY CHANGE IN THE CONSUMER PRICE INDEX (CPI), RATHER THAN THE 25% PASS-THROUGH THAT WAS APPROVED IN PREVIOUS YEARS. THIS BRINGS OUR RENT RATES CLOSER TO THE "COMMERCIAL EQUIVALENCY" STANDARD THAT WAS ORIGINALLY ENVISIONED WHEN THE FEDERAL BUILDINGS FUND WAS ESTABLISHED BY CONGRESS. THIS CHANGE WILL GENERATE AN ADDITIONAL $80 MILLION FOR CAPITAL IMPROVEMENTS IN FISCAL YEAR 1991.

SECOND, AS PART OF THE PROPOSED APPROPRIATION LANGUAGE FOR FISCAL YEAR 1991, WE HAVE INCLUDED A GENERAL PROVISION TO ADDRESS THE ISSUE OF RENT CAPS AND FREEZES. THIS PROVISION WOULD AUTHORIZE APPROPRIATIONS TO OFFSET ANY INCOME REDUCTIONS RESULTING FROM LEGAL RESTRICTIONS OR LIMITS ON THE RENTAL PAYMENTS THAT AGENCIES MAKE TO GSA. THE APPROPRIATIONS WOULD BE SCORED AGAINST THE

SUBCOMMITTEE THAT SET THE RENTAL LIMITATION. IN FISCAL YEAR 1990 THERE ARE ONLY TWO AGENCIES WITH RENT CAPS: THE UNITED STATES DEPARTMENT OF AGRICULTURE AND THE UNITED STATES FOOD AND DRUG ADMINISTRATION. THE INCOME LOST FROM THESE TWO AGENCIES IN FISCAL YEAR 1990 DUE TO CAPS ON THIER RENTS IS ESTIMATED AT $64 MILLION.

I FEEL THAT THIS IS A SOUND AND INNOVATIVE BUDGET THAT EFFECTIVELY USES ALL OF THE RESOURCES AVAILABLE TO THE PUBLIC BUILDING SERVICE. HOWEVER, EVEN WITH THESE REVENUE ENHANCEMENTS, THERE REMAINS A SERIOUS SHORTFALL OF RESOURCES WITHIN THE FUND FOR THE INVENTORY OF NEW CONSTRUCTION REQUIREMENTS THAT WE HAVE IDENTIFIED. NEW AUTHORITIES ARE CRITICALLY NEEDED TO ENABLE GSA TO ACQUIRE NEW GOVERNMENT-OWNED SPACE IN A TIMELY AND COST-EFFICIENT MANNER, SO THAT WE CAN REDUCE THE GOVERNMENT'S RELIANCE ON COSTLY LEASED SPACE, WHICH IS FAR LESS ECONOMICAL TO GSA AND TO THE TAXPAYER OVER THE LONG TERM.

THAT BRINGS ME, MR. CHAIRMAN, TO WHAT I BELIEVE TO BE THE MOST SIGNIFICANT PUBLIC BUILDINGS INITIATIVE IN MORE THAN A DECADE, GSA'S "LEAST-COST" FINANCING INITIATIVE. LATE LAST SUMMER A GENERAL SERVICES ADMINISTRATION (GSA)-OFFICE OF MANAGEMENT AND BUDGET (OMB) TASK FORCE COMPLETED A JOINT STUDY OF GSA SPACE REQUIREMENTS AND THE ADEQUACY OF FEDERAL BUILDINGS FUND RESOURCES TO MEET THOSE REQUIREMENTS. THE GSA-OMB TASK FORCE IDENTIFIED 21 PRIORITY FEDERAL CONSTRUCTION PROJECTS, AT A COST OF APPROXIMATELY $3 BILLION, REQUIRED OVER THE NEXT THREE FISCAL

YEARS. BASED UPON THE MISSION AND THE SERVICE DELIVERED BY THE FEDERAL TENANTS WHO WILL BE HOUSED IN THESE BUILDINGS, THE REQUIREMENTS REPRESENT A STABLE LONG-TERM NEED FOR SPACE IN SPECIFIC AREAS. OF THE $3 BILLION REQUIREMENT, THE STUDY PROJECTED THAT $500 MILLION COULD BE FUNDED AS DIRECT FEDERAL CONSTRUCTION FROM REVENUES OF THE FUND, LEAVING A SHORTFALL OF $2.5 BILLION IN FISCAL YEARS 1991-1993.

TO OVERCOME THE PROJECTED SHORTFALL, THE GSA/OMB TASK FORCE RECOMMENDED THAT LEGISLATION BE SOUGHT TO AUTHORIZE GSA TO ENTER INTO LEASE-TO-OWNERSHIP AGREEMENTS FOR THE DEVELOPMENT OF THOSE PRIORITY PROJECTS WHICH CANNOT BE DIRECTLY FUNDED. THIS TASK FORCE RECOMMENDATION WAS SUPPORTED BY A GENERAL ACCOUNTING OFFICES (GAO) REPORT: "FEDERAL OFFICE SPACE: INCREASED OWNERSHIP WOULD RESULT IN SIGNIFICANT SAVINGS" (GAO/GGD-90-11). THE GAO REPORT RECOMMENDED THAT GSA SEEK CONGRESSIONAL APPROVAL AND FUNDING FOR BUILDING CONSTRUCTION PROJECTS AND PURCHASE OPPORTUNITIES THAT REPRESENT COST-EFFECTIVE ALTERNATIVES TO LEASING.

AS YOU KNOW, MR. CHAIRMAN, WE HAVE BEEN WORKING WITH YOUR STAFF AND COMMITTEE STAFF TO DEVELOP THIS LEGISLATIVE PROPOSAL. OUR EFFORTS HAVE BEEN TEMPORARILY SIDETRACKED WHILE GSA, OMB AND BUDGET OFFICIALS OF THE CONGRESS ATTEMPT TO RESOLVE QUESTIONS REGARDING HOW THESE AND OTHER LEASE-TO-OWNERSHIP PROJECTS WILL BE "SCORED" FROM BOTH A BUDGET AUTHORITY AND BUDGET OUTLAY STANDPOINT. WHILE WE, OF COURSE, HOPE TO USE A METHOD OF

FINANCING THAT WOULD RESULT IN THE LOWEST COST, ANY METHOD THAT WOULD RESOLVE THESE SCORING DECISIONS WOULD BE FAR MORE ADVANTAGEOUS TO THE TAXPAYERS THAN THE ALTERNATIVE, CONTINUED LEASING.

I LOOK FORWARD TO THE PROMPT RESOLUTION OF THESE OUTSTANDING CONCERNS AND TO THE DAY I CAN UNDERTAKE THE CONSTRUCTION OF THESE DESPERATELY-NEEDED FACILITIES.

MR. CHAIRMAN, THAT CONCLUDES MY STATEMENT. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS THAT YOU OR THE COMMITTEE MAY HAVE.

Administrator
General Services Administration
Washington, DC 20405

May 14, 1990

The Honorable Daniel Patrick Moynihan
Chairman, Subcommittee on Water
Resources, Transportation, and
Infrastructure
Committee on Environment and
Public Works
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Thank you for affording me the opportunity to testify before the subcommittee last month.

Enclosed please find my answers to the questions that I was asked to provide for the record. If there are any additional questions that the subcommittee might have, please have your staff contact Michael J DeLoose, my Associate Administrator for Congressional Affairs. Mr. DeLoose can be reached on 501-0563.

Sincerely,

Richard G. Austin
Acting Administrator

Enclosure

QUESTION FOR THE RECORD FROM SENATOR QUENTIN N. BURDICK

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION (PADC)
FY 1991 BUDGET REQUEST

QUESTION:

I understand that of the $1,575,000 requested for fiscal year 1991 by the Pennsylvania Avenue Development Corporation for the International Cultural and Trade Center/Federal Office Building project on the Federal Triangle, the General Services Administration has provided only $500,000. How does GSA justify this reduction of the budget request by over two-thirds?

ANSWER:

PADC requested that GSA budget $1,575,000 to be transferred to PADC in fiscal year 1991 for work associated with the ICTC project. This request included:

Staff and Administrative Expenses (11 FTE)	$850,000
Consultant Services	725,000
Total	$1,575,000

In a letter to Mr. Frank Hodsoll, dated December 4, 1989, the Acting Administrator informed the Office of Management and Budget (OMB) that GSA would prefer that PADC budget directly for these costs because GSA did not wish to be responsible for justifying and explaining another entity's budget request.

OMB's initial response to GSA was that PADC would budget directly for Staff and Administrative Expenses and that GSA should budget for the necessary consultant services.

GSA reviewed PADC's consulting services request and concluded that $475,000 would be sufficient for fiscal year 1991.

Based on OMB's preliminary decision that GSA would budget for Consultant Services only, and with OMB's approval, GSA included the estimate of $475,000 in the 1991 budget under the Design and Construction Services activity.

OMB later altered their position and directed GSA to provide financial support for Staff and Administrative Expenses, as well.

However, OMB did not permit GSA to increase its budget request to accommodate these additional costs.

In light of OMB's final decision, GSA analyzed PADC's staffing request and the current projection of other requirements funded under the Design and Construction Services activity. GSA would be able to transfer to PADC an additional $430,000, which would fund approximately 8 FTE, by reducing other areas of the Design and Construction Services activity.

QUESTION FOR THE RECORD FROM SENATOR QUENTIN N. BURDICK

NEW COURTHOUSE - BOSTON, MASSACHUSETTS

QUESTION:

The Committee on Environment and Public Works was pleased to receive from GSA the prospectus for the new Boston Federal Courthouse. The agency proposes a fiscal year 1992 design start for this project. Design of the project is expected to cost $6.1 million. Would it be possible to begin this project in fiscal 1991 if $3 million in funds were allocated for design? What changes would need to be made in GSA's budget proposal in order to begin design of this project in fiscal 1991?

ANSWER:

GSA has submitted a Report of Building Project Survey as a result of a House 11(b) resolution, which recommends the construction of a new courthouse in Boston. GSA's regional office in New York will be proposing this project for fiscal year 1992 Site and Design funding. We do not believe that providing $3 million for design in fiscal 1991 would be helpful since partial design funding would not bring the courthouse on-line any earlier. For design to be properly developed, we must know the site location, size and configuration, and, particularly in Boston, the below grade conditions. In addition, we need the time to work with the courts to develop definitive courts' requirements which will make up a significant portion of the design program.

In summary, we believe that providing $3 million for design of the Boston project would not expedite the Boston project, and would adversely impact other urgently needed projects. The most reasonable approach for the Boston project is for GSA to continue to develop the project with the U.S. Courts with the objective of funding Site and Design in fiscal year 1992, with construction funding to follow.

QUESTION FOR THE RECORD FROM SENATOR QUENTIN N. BURDICK

PENTAGON - WITHDRAWAL FROM THE FBF

QUESTION:

The Administration recently announced its intention to withdraw the Pentagon from the Federal Buildings Fund (FBF) and allow the Department of Defense to undertake extensive renovations to the facility. What will be the long-term budgetary impact on the FBF of the withdrawal of the Pentagon?

ANSWER:

In order to analyze the budgetary impact of the withdrawal of the Pentagon from the FBF it is necessary to review the income and expenses associated with the Pentagon complex.

The attached chart depicts the stream of revenues and expenses for the facility for the period fiscal years 1991 through 2007. Included are the estimated costs of performing the renovations to the Pentagon. The assumption is that if the facility were to stay within the Fund then the cost of the renovations would occur and conversely if the Pentagon is transferred so are the costs.

Assuming the maximum timeframe for completion of the entire renovation and expansion project, the facility would be complete and fully occupied by the year 2007. Over the next seventeen years, while the project is under design and construction, the complex would generate sufficient revenues in excess of basic operating expenses to fund the new obligational authority required for the project. In other words, the Fund would breakeven over the seventeen year term of the project.

After completion of the project the Pentagon would start generating excess funds that would be available for other capital needs within the inventory. However, given the length of time, 17 years, and the resultant uncertainty of events that could arise during this period of time it is difficult to predict the long-term impact upon the Fund of this transfer.

EFFECT OF THE PENTAGON MODERNIZATION PROJECT ON THE FEDERAL BUILDINGS FUND

(Dollars in Thousands)

Option I All Project Costs Direct-Funded as NOA in the year they are required.

FISCAL YEAR	RENT INCOME			OPERATING BUDGET			CAPITAL	FEDERAL BUILDINGS FUND BALANCE			PROJECT Phase
	Before Project	Project Effect	After Project	Before Project	Project Effect	After Project	Project Budget	Before Project	Project Effect	After Project	
1991	82,772		82,772	38,635		38,635	5,263	44,137	-5,263	38,874	Initiate Design
1992	92,705		92,705	39,987		39,987	5,435	52,718	-5,435	47,283	
1993	96,506		96,506	41,387		41,387	96,100	55,119	-96,100	-40,981	Heating Plant Construction
1994	100,269		100,269	42,835		42,835	108,684	57,434	-108,684	-51,250	Phase I Construction
1995	103,979		103,979	44,334	-2,217	42,117	19,672	59,645	-17,455	42,190	Phase VII Construction
1996	107,618		107,618	45,886	-2,294	43,592		61,732	2,294	64,026	
1997	114,614	-8,929	105,685	47,492	-2,375	45,117	153,763	67,122	-160,317	-93,195	Phase II Construction
1998	118,625	-9,509	109,116	49,154	-2,458	46,696		69,471	-7,051	62,420	
1999	122,777	-3,515	119,262	50,875	-3,561	47,314	197,709	71,902	-197,663	-125,761	Phase III Construction
2000	127,074	-3,637	123,437	52,655	-3,686	48,969		74,419	49	74,468	
2001	131,522	3,012	134,534	54,498	-4,905	49,593	201,855	77,024	-193,938	-116,914	Phase IV Construction
2002	140,071	3,208	143,279	56,406	-5,077	51,329		83,665	8,285	91,950	
2003	144,973	11,104	156,077	58,380	-6,422	51,958	231,665	86,593	-214,139	-127,546	Phase V Construction
2004	150,047	11,826	161,873	60,423	-6,647	53,776		89,624	18,473	108,097	
2005	155,299	21,315	176,614	62,538	-8,130	54,408	200,410	92,761	-170,965	-78,204	Phase VI Construction
2006	160,734	22,698	183,432	64,727	-8,415	56,312		96,007	31,113	127,120	
2007	171,182	49,448	220,630	66,992	-10,049	56,943		104,190	59,497	163,687	Project Completed
TOTAL	2,120,767	97,021	2,217,788	877,204	-66,236	810,968	1,220,556	1,243,563	-1,057,299	186,264	

NOTES:

Fiscal Year - Years shown are from project initiation through the first year after completion.

RENT Income Before Project - RENT payments to GSA assuming the project was not undertaken.

Project Effect on RENT Income - Assumes (1) Income loss while portions of the Pentagon are vacant and under renovation; (2) Additional revenues after the completion of the Logistics extension; (3) Higher RENT created by a 10% improvement in the quality of the space; and (4) Additional income generated by the narrowing of corridors which would create additional rentable space.

Operating Budget Before Project - Amount of New Obligational Authority transferred to DOD each year through the Allocation Account each year for the Operation, Maintenance, and Recurring Repairs to the Facility. Assumes that the project did not occur.

Project Effect on the Operating Budget - Recognizes the reduced Operating expenses resulting from a projected 15% increase in building operational efficiency.

Capital Project Budget - New Obligational Authority to be budgeted by GSA for the Design, Construction, and Management and Inspection of the project (as described in the 11B report). NOA budgeted in an amount equal to the estimated contract costs for each phase.

Federal Buildings Fund Balance - Income less Operating and Capital Budget Amounts

QUESTION FOR THE RECORD FROM SENATOR QUENTIN N. BURDICK

RENT CHARGES FOR JUDICIAL SPACE

QUESTION:

In its recently released report, GSA and the Courts: Building a Better Relationship, GSA indicates that it will expand what it provides to the Federal Courts as standard-level space, and will no longer require the Judiciary to pay up front for features such as judge's benches and jury boxes. GSA also states that the Court's rents will be adjusted accordingly. By approximately what percentage will the Judiciary's rents be expected to rise as a result of this change.

ANSWER:

Traditionally, a number of the usual features of a courtroom (for example, the judge's bench, jury boxes, and private elevators for judges) have not been included in standard level buildout. This means that when GSA has been constructing courtrooms in either existing or new buildings, the AOC has been required to reimburse GSA for such features prior to contract award for the construction of those features.

After consideration of this issue, GSA has proposed to revise and expand its definition of standard level buildout of court space, to provide "ready-to-move-in" space. Under the revised definition, GSA proposes to deliver fully functional courtrooms, hearing rooms, judges chambers, and ancillary space. The proposed changes to the standard level are currently under discussion with the AOC. There will also be a clarification of the level of finishes to be provided when such finishes are not specified in the U.S. Court Design Guide.

After agreement has been reached with the AOC, the new definition of standard level buildout for court space will be implemented through changes to the Federal Property Management Regulation (FPMR) now in process for publication in the Federal Register. GSA will also adjust the computation of Rent charges for court space to reflect the new standard level. The courts will continue to be charged on a reimbursable basis for enhancements to this standard level (for example, higher grades of paneling).

It is estimated the Judiciary's Rent will increase by approximately 13 percent for new courtroom space acquired under this new policy. There will be no impact upon the Rent charges for existing space or for space currently being designed or constructed under the existing funding guidelines.

QUESTIONS FOR THE RECORD FROM SENATOR DANIEL PATRICK MOYNIHAN

BORDER CROSSINGS - BUFFALO/NIAGARA, NEW YORK AREA

QUESTION:

There are four bridge crossings on the Niagara frontier: Peace Bridge, Rainbow, Lewiston-Queenston, and Whirlpool. I understand that the bridges' facilities needs include new inspection booths and shelters, holding cells and a completely new facility for the Rainbow Bridge. Please detail the needs for each bridge's border station and provide a schedule for when you expect work to be completed and how much it will cost. In addition, please identify what action, if any, is required by the Congress to authorize this work.

ANSWER:

In October 1989, GSA and the inspection agencies conducted an interagency "Border Walk." Below are comments received during that "Border Walk" from the inspection agencies.

1. Lewiston-Queenston Bridge: During the interagency "Border Walk" in October, neither inspection agency identified significant needs at this station. GSA has no SF-81's (Space Requests) on file nor have we received any indication that any are anticipated.

2. Whirlpool Bridge: During the interagency "Border Walk" in October, both agencies indicated a need for expanded facility in the next 5 to 10 years. However, expansion would only occur if the bridge itself is enlarged.

3. Rainbow Bridge: As with 1 & 2 above this bridge, and all border station facilities, are owned by the Niagara Falls Bridge Commission. We lease space for the inspection agencies. All agencies, including GSA, agree that a much larger facility is required at this location. Because the facility is owned by the Bridge Commission, it is most unlikely that GSA would seek direct Federal construction.

Rather, GSA would request the Commission to build a new facility to our specifications. INS has submitted (12/27/89) a certified SF-81 for this location. The Customs Service has not. A new lease for an expanded facility would probably be above the prospectus threshold. Detailed needs are unavailable, other than to say that we would need all those facilities and appurtenances that constitute a major border facility such as: Primary and Secondary inspection, truck inspection, office space, holding cells, storage space and plenty of land for traffic management.

Cost estimation is impossible without detailed space requirements (SF-81's & 81A's) from all agencies (Customs Service, Immigration and Naturalization Service, Agriculture's Animal and Plant Health Inspection Service and the Fish and Wildlife Service)

When we have all requirements, GSA's Regional Real Estate Division could begin negotiations with the Bridge Commission. We expect that it would take the Commission 2 to 3 years to build the facility. Work would have to be phased to allow continued use of the existing border station, particularly since the Rainbow Bridge Station is a good candidate for National Register status.

4. Peace Bridge: GSA does have SF-81's for the Border Crossing, however, they are at least 1 year old, and will need to be updated and recertified. This can't be done until the current truck inspection facility solicitation is finalized.

It is our understanding that the Senate Public Works Committee is about to pass an 11(b) Resolution directing GSA to investigate the space requirements at these four Border Crossings. The results of this 11(b) Report would address your questions in more detail.

QUESTIONS FOR THE RECORD FROM SENATOR DANIEL PATRICK MOYNIHAN

BORDER CROSSINGS - BUFFALO/NIAGARA, NEW YORK AREA

QUESTION:

I also understand that you plan to award a contract for the construction of an off-site inspection station for the Peace Bridge shortly. Please specify the schedule for the award and construction of the new facility. In addition, there appears to be some question concerning who will pay for the road connecting the new facility to the main road. Has this been resolved? If not, why not?

ANSWER:

The Solicitation for Offers for the truck inspection facility was issued on October 19, 1989, with offers due by December 1, 1989. Negotiations are currently underway with an estimated award date of September 1, 1990, and occupancy 18 months later (assuming that new construction will be required).

A "secure roadway" is not required to satisfy the solicitation requirements; however, a "security system" is required and was described in the Solicitation for Offers which stated, in part that "...Proposals must include a security system which will control the movement of each truck, driver and passenger from the bridge to the inspection facility and must be able to ensure that the conveyance does not deviate from the specified route or make any stops, merchandise is not loaded or removed from the conveyance and that individuals do not enter or depart from the vehicle...Proposals which require that inspections are performed away from the border must provide for the constructive custody of aliens applying for admission to the United States while in transit from the actual border to the inspection point."

If the successful offeror proposes the construction of a connecting road, such a road would be the responsibility of the offeror.

QUESTIONS FOR THE RECORD FROM SENATOR HARRY REID

CAPITAL IMPROVEMENT PROJECTS IN NEVADA

QUESTION:

Why are no Nevada projects included in GSA's Capital Improvement Program for fiscal year 1991?

ANSWER:

Only one Nevada project was offered by Region 9 for inclusion in the fiscal year 1991 program. It proposed new construction of a courthouse annex adjacent to the existing courthouse in Reno. The project was deferred, however, pending further study by the Region of options considering construction of a smaller annex and/or conversion of the existing building to accommodate the courts' needs. These options are now the basis of projects being proposed in fiscal years 1992 and 1993, respectively.

QUESTIONS FOR THE RECORD FROM SENATOR HARRY REID

EPA PROJECT - UNIVERSITY OF NEVADA, LAS VEGAS

QUESTION:

Why is no project for the Environmental Protection Agency (EPA) at the University of Nevada, Las Vegas being included in the current Capital Improvement Program? Is the proposed project suitable for inclusion in the program?

ANSWER:

A delegation of leasing authority was granted by GSA to the EPA in 1963 and was renewed in 1986. In May of 1988, GSA submitted to Congress a succeeding lease prospectus for the EPA to lease 63,285 square feet of space from the University of Nevada at Las Vegas for up to 10 years. This prospectus considered Federal construction as an alternative to leasing, but found it more costly. Therefore, leasing was recommended. Congress approved a maximum annual lease authority for $1,491,313, for a term of 10 years. Since that time, the Region has not been alerted to a need for housing the EPA otherwise. No plans for another project have been made, and no recent evaluations of other options have been considered. GSA does not believe that a new construction project is suitable for inclusion in the current fiscal year 1991 program, since we do not have a recent evaluation of other housing alternatives or agency requirements.

QUESTIONS FOR THE RECORD FROM SENATOR JOHN H. CHAFEE

COMPREHENSIVE INVESTMENT STRATEGY

QUESTION:

Some agency officials have criticized GSA for the lack of a comprehensive capital investment strategy. How does GSA determine the Federal Government's most critical space needs?

ANSWER:

GSA has a mechanism in place that addresses these concerns. The Planning and Project Review Board process is the focal point for these activities from strategic direction through specific project recommendations. Decisions on the size and location of Government facilities are based upon long-term Federal housing requirements calculated with the participation of the agencies to be housed. Decisions on acquisition, renovation or disposal of facilities are based on the characteristics of the need for space, local real estate markets, and funding considerations. Facilities are evaluated periodically to determine utilization levels, possible problems relating to building operations and reinvestment levels required to maintain and maximize the property's value as an asset.

QUESTION FOR THE RECORD FROM SENATOR JOHN H. CHAFEE

NEW COURTHOUSE - BOSTON, MASSACHUSETTS

QUESTION:

The Committee on Environment and Public Works was pleased to receive from GSA the prospectus for the new Boston Federal Courthouse. The agency proposes a fiscal year 1992 design start for this project. Design of the project is expected to cost $6.1 million. Would it be possible to begin this project in fiscal 1991 if $3 million in funds were allocated for design? What changes would need to be made in GSA's budget proposal in order to begin design of this project in fiscal 1991?

ANSWER:

GSA has submitted a Report of Building Project Survey as a result of a House 11(b) resolution, which recommends the construction of a new courthouse in Boston. GSA's regional office in New York will be proposing this project for fiscal year 1992 Site and Design funding. We do not believe that providing $3 million for design in fiscal 1991 would be helpful since partial design funding would not bring the courthouse on-line any earlier. For design to be properly developed, we must know the site location, size and configuration, and, particularly in Boston, the below grade conditions. In addition, we need the time to work with the courts to develop definitive courts' requirements which will make up a significant portion of the design program.

In summary, we believe that providing $3 million for design of the Boston project would not expedite the Boston project, and would adversely impact other urgently needed projects. The most reasonable approach for the Boston project is for GSA to continue to develop the project with the U.S. Courts with the objective of funding Site and Design in fiscal year 1992, with construction funding to follow.

QUESTION FOR THE RECORD FROM SENATOR JOHN CHAFEE

ENVIRONMENTAL PROTECTION AGENCY (EPA) CONSOLIDATION

QUESTION:

What is the status of negotiations on the siting and construction of a new headquarters facility for the EPA? Will the EPA be moving to the Southeast Federal Center (SEFC)?

ANSWER:

In the General Services Administration's (GSA's) fiscal year 1990 Appropriations bill, signed by the President on November 3, 1989, GSA was authorized to lease purchase 1.4 million occupiable square feet of space plus necessary parking on a site in the District of Columbia for the consolidation of EPA. No cap was set on the cost of this project.

On March 29, 1990, the President submitted an amendment to GSA's fiscal year 1991 budget request which stated that in fiscal year 1992, $300 million would be made available for the construction of a facility for EPA within the District of Columbia from the resources of the Federal Buildings Fund.

GSA originally proposed that the site for the EPA facility be the Southeast Federal Center (SEFC). There have been a series of meetings, and testimony before the Congress on prospective sites for this facility. At the November 8, 1989 meeting of the House Subcommittee on Public Buildings and Grounds, EPA testified that the SEFC location was negotiable and that the agency would report back to the Committee on its decision.

On April 20, 1990, Administrator Reilly announced to EPA employees that the EPA would not locate its new facility at the SEFC.

EPA has established that it has a need to be located within the District of Columbia and the statute authorizing the project and the language contained in the Budget Amendment require its location there. The amount of space that EPA needs for its consolidated facility requires a site of considerable size.

Other issues related to the above-standard requirements of the proposed facility and their funding are under discussion.

QUESTIONS FOR THE RECORD FROM SENATOR JOHN H. CHAFEE

AOC'S PROPOSED LEGISLATION

QUESTION:

Would you briefly describe GSA's position on the Administrative Office of the Courts' proposal to seek independent real property authority?

ANSWER:

GSA believes that enactment of H.R. 4178 would not resolve the AOC's underlying real property management problems, and would in fact, create additional ones. The legislation would:

- o Duplicate the real property management services already provided by GSA to Federal tenants. AOC would hire their own facilities management staff to meet their needs. However, GSA's work load would not be decreased enough to warrant a reduction in staffing.

- o Fragment responsibility for ensuring that Government-owned real property is fully utilized, conceivably allowing construction of new court space in a location where GSA has vacant or underutilized space in an existing building.

- o Lead to instances where AOC and GSA could potentially find themselves competing for the same commercial properties, thereby driving up the cost to the taxpayer.

- o Release the AOC from property disposal requirements as set forth in the Federal Property and Administrative Services Act of 1949, as amended. It would permit the AOC to veto the transfer, closing or disposal of GSA-controlled properties that house the courts.

- o Subordinate the needs of all other Federal tenants in GSA space, including congressional district offices, to the needs of the courts.

- o Exempt the courts from paying commercial equivalent Rent for space in GSA-controlled buildings, as required by the Public Buildings Amendments of 1972. The courts would pay GSA on a cost recovery basis only, thereby reducing funds available for capital investments to GSA's inventory by $105 million each year.

- o Provide AOC with unlimited lease purchase authority to acquire courts facilities, subject only to prospectus approval by the Public Works Committees.

QUESTIONS FOR THE RECORD FROM SENATOR JOHN H. CHAFEE

PROJECT SELECTION CRITERIA

QUESTION:

I see that GSA's Construction and Acquisition of Facilities request includes 7 Courthouse projects. How did GSA determine that the Courts would receive virtually all New Construction Funds for 1991?

ANSWER:

It has been GSA's policy to utilize its limited Construction and Acquisition activity funds for special purpose facilities and to avoid leasing special purpose space whenever possible. As you have noted the majority of the fiscal year 1991 program is devoted to special purpose court facilities.

The fiscal year 1991 budget request identifies 8 projects for direct federal construction, 2 escalations of previously approved projects, 1 claim, and funding for non-prospectus construction projects. During the formulation of the fiscal year 1991 budget, as for any other year, GSA was first required to estimate the amount of resources that would be available to the Fund. The second step was to determine the funding levels necessary to operate and maintain our existing inventory and to provide for necessary program increases. The third step is to evaluate the remaining funds in light of the requirements for acquisition of new federally owned space.

Our requirements for fiscal year 1991 far exceed the resources available in the Fund. In selecting projects for direct federal construction the feasibility of acquiring the same space through a lease and our commitment to the judiciary to provide for their expansion needs were the primary factors used to develop our final request.

QUESTION FOR THE RECORD FROM SENATOR JOHN CHAFEE

PLANNING FOR COURTS OMNIBUS JUDGESHIP REQUIREMENTS

QUESTION:

The Judicial Conference has submitted to the Congress a need for over 50 new judgeships. How does GSA plan to provide them chambers and courtrooms in which to work?

ANSWER:

Since the time the Judicial Conference made its recommendations on the new judgeships, GSA has been working with the Administrative Office of the U.S. Courts (AOC) to plan for the required facilities.

Fifty-nine potential district judgeships in 46 probable locations were identified. Depending on final development of project requirements by the courts, about 26 of the locations have required prospectus-level projects. Twenty-two of these have already been developed and funded for design or construction as of fiscal year 1990. The remaining four have been requested in the fiscal year 1991 program. Except for a few locations where the courts have not yet defined their requirements, all of the 45 locations will have projects under construction or design by fiscal year 1991 or have existing facilities available for use.

Since appointment of new judges probably will not occur until 1991, many of the projects will be completed or under construction by the time the new judges are appointed. This is a 2-3 year improvement in project delivery time over previous efforts to accommodate omnibus judgeships.

QUESTION FOR THE RECORD FROM SENATOR JOHN CHAFEE

CPI ESCALATORS AND RENT CAPS

QUESTION:

Will the action to allow annual Rent escalators to reflect 100% of the Consumer Price Index and the lifting of Rent Caps prevent future financial shortfalls in the Federal Buildings Fund?

ANSWER:

In order to analyze the Federal Buildings Fund and to properly address the management of its resources it is necessary to first focus on the revenues that are the foundation of the budget. Since 1975 GSA has charged its clients rent for the space that they occupy in GSA controlled space. In fiscal year 1991 GSA is presenting 2 initiatives that will keep our Rent charges closer to commercial equivalency as intended by the authorizing legislation.

The first initiative has already been approved by the Administration. It provides for the application of 100% of the Consumer Price Index (CPI) increase to the Rent rates charged to our tenants. Previously, GSA, was passing through 25% of the CPI increase. For fiscal years 1992 through 1996 the conversion to a 100% pass through will generate an additional $1 billion in revenues. This increased revenue will go directly into our capital program.

The second initiative is embodied in a new general provision that we are proposing for inclusion in the fiscal year 1991 Appropriation Act. This language is intended to eliminate the caps that have been placed on Rent payments from selected agencies. The language authorizes a direct appropriation to the Fund in an amount equal to the value of the revenue lost by the imposition of Rent caps. It provides that the Office of Management and Budget and the Congressional Budget Office (CBO) would jointly determine the amount by which GSA income is reduced as the result of a Rent cap or freeze. Upon notification of the Committees on Appropriations of the House and Senate these amounts would be appropriated to the Fund.

Further, this language proposes that should any subcommittee of the Committees on Appropriations take action to place a limitation on or reduce the amount of payments from an Agency to GSA for space and services, the CBO would estimate the amount of the reduction and would record the budget authority and outlays against that subcommittee's activities.

This technique of scoring increased budget authority and outlays resulting from Rent caps, would effectively eliminate the benefit to tenant agencies and their appropriations subcommittees of such caps and freezes, and hopefully, result in their elimination.

(2)

The additional revenues from these two initiatives will be devoted to capital investment requirements. However, given the age of our Government-owned inventory, the projected increases in expansion space requirements, and the current ratio of Government-owned to leased space these measures alone cannot meet all of the future funding requirements of the Federal Buildings Fund.

To address some of the most pressing space needs, GSA has recently submitted an amendment to the fiscal year 1991 Budget which requests that an appropriation in the amount of $2,413,656,000 be deposited into the FBF. These funds would be used in the Construction and Acquisition and the Design and Construction Services programs to acquire approximately 9.6 million occupiable square feet of Government-owned space.

QUESTION FOR THE RECORD FROM SENATOR JOHN CHAFEE

QUESTION:

What is GSA doing to implement a long-range plan for Federal space needs?

ANSWER:

GSA will present its fiscal year 1992 Capital Improvement and Leasing Program to Congress within the context of a long-range (at least five year) plan. Many of the elements to produce such a plan are already in place. For example, GSA produces long-range Community Plans for the major cities on an annual basis. We have initiated a special study to determine the proper ratios of Government-owned to leased space on a community by community basis and roll-up community requirements to a national level. The study will serve as the baseline for determining national requirements and priorities and developing long-range plans to meet these needs.

INTRODUCTORY STATEMENT

PRESENTED BEFORE
THE SUBCOMMITTEE ON WATER RESOURCES,
TRANSPORTATION, AND INFRASTRUCTURE
OF THE SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

BY

WILLIAM M. DIEFENDERFER
DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

MARCH 20, 1990

Chairman Moynihan, Ranking Minority Member Symms, and distinguished members of the Subcommittee on Water Resources, Transportation and Infrastructure. It is a pleasure to appear before you today to discuss the Administration's FY 1991 public buildings budget, our assessment of the long-term needs for Federal office space provided by the Public Buildings Service, and our position with respect to financing those needs.

The Fiscal Year 1991 Budget requests $3.8 billion in new obligational authority for the Federal Buildings Fund, 15 percent more than in 1990. The capital budget portion of the request is for $1.2 billion.

Of the capital budget request, the largest component, $573 million, is to continue the accelerated repair and alterations (R&A) program, which was begun in 1988. By sustaining this level of funding for R&A, GSA will be able to protect the government's investment in public buildings and insure the safety of the occupants. The capital budget request also provides $271 million for new construction, primarily to construct facilities for the U.S. Courts. I plan to discuss in more detail the remaining long-term needs included in the list of the 21 projects identified in a joint GSA/OMB study that was completed last summer.

The Federal Buildings Fund, which was established in 1975, was based on the premise that agencies, paying market-based rents, would provide income adequate both to operate and maintain the existing inventory of buildings and build new facilities as needed. Over the years, however, combined budget decisions and Congressional actions reduced agency rents well below commercial equivalent levels. For example, in 1975, Congress reduced agency payments by 10 percent, raiding the Fund for $124 million. In 1976, OMB joined in the raid of the FBF and recommended reducing rates by $290 million; and, as late as 1987, OMB reduced rates by 15 percent, at a cost to the Fund of $427 million. Congress agreed and passed the OMB recommendation. In all, since 1975, the cumulative reduction in rent income to the Fund has totalled $2.4 billion ($3.7 billion in 1989 dollars).

This reduced funding has had its greatest impact on the Public Building Service's capital expense activities. It has resulted in a backlog of major repair and modernization projects in existing buildings and significant deferrals of new construction projects to meet long-term space requirements.

Since 1988, PBS has once again been allowed to collect market-based rents from the agencies, although Congress continues to intervene to limit the rent payments from the Departments of Transportation and Agriculture (including the Food and Drug Administration) to below market rates. This must stop. Despite the loss since 1988 of $100 million that has resulted from this limitation, increases in rent income are now permitting GSA to reduce the backlog of repair and alteration projects.

The pre-1985 shortfall in the Federal Buildings Fund has forced GSA to lease a number of office buildings where it clearly would have been more economical and efficient to purchase or build them. The problems caused by past raids on the FBF were addressed last summer in a joint OMB/GSA study to answer the following questions:

- How much space does the Public Buildings Service need to provide Federal Government agencies in the near future?
- What part of that space would be more economically provided if it were Government owned?
- How much, if anything, must be added to the Federal Buildings Fund to meet these requirements, and what methods might be used to provide for this funding?

In answering these questions, the GSA/OMB Task Force agreed upon criteria for determining where it is more economical to own rather than lease space. These criteria are related to the nature of the needs whether they are long term and unchanging in relation to configuration and location and whether they are cost-effective in relation to the projected state of regional real estate economic conditions. The application of these criteria to existing Federal Buildings Fund requirements facilitates and controls the identification of specific facilities which the Public Buildings Service should seek to own rather than lease.

The Task Force also estimated the capacity of the Federal Buildings Fund to permit the construction or purchase of those buildings identified as needed long term. Twenty-one buildings were so identified. (A list of these is attached to my statement). After careful examination of the Fund's projected revenues and expenditures for normal maintenance, current lease payments, and construction already in the pipeline, the Task

Force concluded that the Fund would be approximately $2.3 billion short in budget authority with respect to these buildings.

The identification of this shortfall led us to review the alternative ways in which the Public Buildings Service might finance acquisition of these buildings. The Task Force considered both Federal and private financing alternatives.

- Federal Financing

  This is the most economical way for the Government to finance the acquisition of office buildings. No one can borrow more cheaply than the Federal Government. Up front Federal financing also places the greatest restraints on those in the Executive branch and the Congress who advocate building acquisition. It meets every test of budget honesty, showing the obligations and budgetary commitments of the Federal Government and outlays when made.

  Direct Federal acquisition and financing also gives the Government complete control over building location and design. Local government restrictions, and State and local taxes are less important concerns in Direct Federal acquisitions, than they are in other forms of acquisitions.

  On the other hand, it is difficult to come up with direct Federal financing in times of budget constraint. Direct Government financing of the 21 buildings requires additional budget authority of $2.3 billion: $1.4 billion more in FY'91; $450 million more in FY'92; and $450 million more in FY'93. Additional outlays, which count for Gramm-Rudman-Hollings (G-R-H) deficit calculation purposes, are also required: $41 million more in FY'91; $114 million more in FY'92; $512 million in FY'93 ; $703 million more in FY'94' $596 million more in FY'95; and $347 million more in FY'96-'97.

- Alternative private financing

  There were very few alternative private financing schemes until 1988. However, ten such arrangements have been legislated over the past three years. These arrangements generally provide for the Government to enter into 30 year contracts, with the Government eventually acquiring ownership. In each case, the statutory language leads us to score budget authority incrementally over the life of the lease. This statutory scoring was opposed by the Executive Branch as costing the government more, understating current budgetary consequences, and undermining budget

discipline in this area. These accounting gimmicks join the dozens of others in masking the true size of the Federal deficit thus understating our future financial obligations.

At the same time, it should be noted that, in a period of tight budgetary constraints, these arrangements have permitted the Government to acquire needed buildings much more efficiently than through short term leases, which are 83 percent more expensive than direct Federal financing. On the other hand, even these transactions are 8 to 10 percent more expensive than direct financing.

Whatever the details of these private financing arrangements, they are in essence just another way for the Government to acquire buildings. In particular, new "securitized" arrangements are "risk-free" to the private investors. Thus, when we reviewed the details of the securitized arrangements, we scored them in the same manner we would score any other Government purchase. As a result, the scorekeeping advantage of this private financing was lost, but the slightly higher financing costs of the private, securitized arrangement remained.

Although our current accounting principles rationally treat so-called private "lease-purchase" arrangements as the Government purchases that they really are, this treatment inhibits the acquisition of much needed long-term capital assets. For the time being, Mr. Chairman, I stand behind the scoring of the "securitization" arrangements contained in the FY 1991 Budget. But I want to work with you and other members of Congress to solve this problem. Perhaps a budgetary scorekeeping system that is not prejudiced against building acquisition and does not violate reasonable budgetary accounting principles can be developed. Certainly we all must argue more effectively for building needs within current budget constraints, fiscal and scorekeeping.

OMB is exploring an alternate scorekeeping system. The system we envision would: (1) spread the outlay costs of acquiring a building over its useful life; (2) finance the building through the Treasury; and (3) be consistent with current cash scorekeeping principles. We will share the details of this plan with you and your staff as soon as we possibly can. But we need to further refine the plan and work on the interactions of this scoring system with current Congressional and Executive budgetary processes to make sure that the plan does not create new problems.

In the meantime, Mr. Chairman, we support the direct construction of buildings as the most efficient method of providing for the Government's space needs. With regards to this decision, we will submit amendments to the President's FY 1991 Budget to fund the FY 1991 share of all 21 projects, (eight of which are requested in the FY 1991 budget), and one (EPA Headquarters) which was authorized in FY 1990, and we will do so consistent with the requirements of the Gramm-Rudman-Hollings legislation.

Nonetheless, even if we meet all the needs of GSA within our current budget limitations, we have to recognize that GSA is only one of many agencies responsible for Government buildings and facilities. GSA accounts for only about 10 percent of the Federal Government's buildings and about 40 percent of its office space. The Departments of Defense and Veterans Affairs, to name two, own and construct most of their own facilities. Unfortunately, because the responsibilities for Government buildings are so fragmented, we do not at this time know whether there will be acquisition needs in other agencies that are not yet funded.

Therefore, we have decided to undertake, prior to the start of 1992 budget deliberations, a crosscutting review of the needs for new buildings and the renovation of existing buildings for all Government agencies. We will also look at the possibility of streamlining the way in which the Government disposes of properties no longer needed, so that additional resources might be secured for new needs. When that review is complete, we will revisit the financing issue with you and other concerned members of Congress.

That is the end of my testimony. I will be pleased to respond to any questions you may have.

3/18/90

21 PROJECTS

	Estimated Square Feet	Estimated Cost
Authorized in 1990		
Environmental Protection Agency, Washington, DC	1,117,000	$ 226,000,000
Requested in FY 1991 Budget		
U.S. Courthouse, Kansas City, Kansas	164,000	31,591,000
U.S. Courthouse, Alexandria, VA	150,000	61,212,000
U.S. Courthouse, Prince George's County, MD	94,000	23,523,000
U.S. Courthouse, White Plains, NY	80,000	29,768,000
U.S. Courthouse, Minneapolis, MN	168,000	53,469,000
U.S. Courthouse Annex, Portland, OR	155,000	38,030,000
John E. Moss Federal Building -- U.S. Courthouse Extension, Sacramento, CA	15,000	6,301,000
U.S.G.S. Buildings, Menlo Park, CA	96,610	25,399,000
To be Requested in Amended FY 1991 and FY 1992 Budgets		
Department of the Navy, Northern, VA	3,000,000	861,664,000
Internal Revenue Service, Suburban, MD	885,000	216,449,000
GSA Headquarters, Washington, DC	650,000	157,313,000
Federal Building Courthouse, Shreveport, LA	101,000	26,852,000
Army Foreign Science and Technology Center Charlottesville, VA	156,400	48,923,000
Federal Bureau of Investigation, Field Office, Washington, DC	248,000	103,075,000
Department of Transportation, Washington, DC	2,000,000	624,321,000
Department of Justice, Washington, DC	400,000	106,374,000
Department of Defense, Metro Area	1,800,000	317,608,000
Parking Facility, Newark, NJ	256,000	18,648,000
U.S. Courthouse Extension, Charlotte Amalie, USVI	15,000	9,670,000
U.S./Mexico Border Station Initiative	N/A	150,000,000

United States General Accounting Office

GAO

Testimony

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The Disinvestment in Federal Office Space

Statement of
L. Nye Stevens, Director
Government Business Operations Issues
General Government Division

before the
Subcommittee on Water Resources,
Transportation, and Infrastructure
Committee on Environment and Public Works
United States Senate

THE DISINVESTMENT IN FEDERAL OFFICE SPACE

SUMMARY OF STATEMENT BY L. NYE STEVENS DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES

For a variety of reasons, the federal government has neglected, for nearly 2 decades, the need for capital investment in modern, quality working space for its employees. Needed repair and modernization projects as well as construction have been deferred. This failure to invest sufficiently in public buildings is beginning to impede the capability of federal agencies to carry out their missions.

Another major consequence is the steadily rising dependence on costly leased office space. More and more revenue that could be used to finance needed capital investment is being siphoned off to meet spiraling annual lease costs--$1.2 billion today and projected to rise to $2 billion in the mid-1990s.

GAO recently issued a series of three reports which emphasized that billions of dollars could be saved if the government owned more of its office buildings rather than leased them. Based on these reports and its general management review of GSA, GAO has identified five principal obstacles to increased capital investment in public buildings: (1) GSA's lack of a strategic concept of its role, including a long-term strategic buildings plan; (2) GSA's pervasive management information systems' problems; (3) the congressional project authorization process that forces both GSA and Congress to think on a transactional project-by-project basis; (4) the inability of the Federal Buildings Fund to finance long-term capital investment needs; and (5) an inherent budget bias against increased federal ownership of space when compared to leasing.

The $3 billion construction program proposed by GSA and OMB for congressional consideration illustrates the effect of these obstacles. Not only is the lease-purchase financing mechanism considerably more expensive than direct financing, but Congress also has no assurance that the projects meet the most critical long-term needs.

GAO makes several recommendations for a more foresighted, cost-effective approach to meeting federal space needs.

Mr. Chairman and Members of the Subcommittee:

We welcome this opportunity to appear before you today in connection with your oversight of the General Services Administration's (GSA) public buildings program. My testimony summarizes a body of work that provides grounds for serious concern about the federal government's current ability to provide quality office space for its employees at a reasonable cost.

One of the serious consequences of budget deficits has been to shortchange the investment required to efficiently maintain government operations. Pervasive shortfalls in funds for financing the basic infrastructure for providing government services -- such as facilities, people, and computers -- threatens to compromise the ability of federal agencies to accomplish their missions.

Public buildings, the subject of your hearing today, provides one of the principal examples of disinvestment in the government's infrastructure. For a variety of reasons, the government, for nearly 2 decades, has neglected the need for capital investment in modern, quality working space for its employees. Available evidence suggests that this was short-sighted, that agencies' mission accomplishment as well as employees' morale and productivity can be adversely affected, and that a major infusion of funds will now be required to

compensate for this neglect. A classic case in point is the serious deterioration of the nearly 50-year-old Pentagon building and the estimated $1 billion that will be needed to bring it up to acceptable standards.

A September 1989 joint OMB/GSA study of federal building needs and financing options concluded that a cumulative Federal Buildings Fund revenue shortfall of $4 billion (in 1989 dollars) since 1975 resulted in a backlog of major repair and modernization projects in existing public buildings and a significant deferral of new construction projects to meet long-term space needs. This study noted major challenges in maintaining over 1,600 government-owned buildings because they generally need a major system overhaul every 20 years, and more than half of them are over 40 years old. Also, many of them are monumental in design and historically significant.

Another consequence of shortchanging investment in facilities is the steadily rising dependence on costly leased office space. Since 1969, for example, leased office space has grown by 103 percent, and the ratio of leased to owned office space has risen from 39 percent to 47 percent. Similarly, the costs of leased space have skyrocketed from $389 million in 1975 to $1.2 billion today and are projected by GSA to reach $2 billion by the mid-1990s as more old leases expire and are renewed at today's inflated prices. More and more revenues that could be used to

finance needed capital investments are being siphoned off to pay spiraling lease bills.

Because of deferred capital investment in needed repairs and modernization as well as in new construction, we sense that agencies are becoming increasingly dissatisfied with their space. Also, agencies are placing increasing demands on GSA for different and better space as the nature of office work changes. More and more tenant agencies and their congressional supporters are perceiving their space as well as GSA's facilities management program to be detrimental to their mission accomplishment and are attempting to go it alone. Out of frustration, they are chipping away at GSA's public buildings authority. The Pentagon is breaking away from GSA, and the courts are making a serious bid to follow.

At your request, Mr. Chairman, and three of your Senate colleagues, we recently issued a series of three reports on the effectiveness of GSA's efforts to improve the ratio of government-owned to leased space:

-- In our first report, Public Buildings Service: GSA's Projection of Lease Costs in the 1990s (GAO/GGD-89-55, Apr. 19, 1989), we analyzed GSA's projection that the cost of leasing space would increase from $900 million in 1986 to $2 billion by 1995. We found that some of the data used to make

the projection was unreliable, although the model used to make the projections was basically sound.

-- In our second report, Building Purchases: GSA's Program Is Successful But Better Policies and Procedures Are Needed (GAO/GGD-90-5, Oct. 31, 1989), we examined GSA's building purchase program. Our major message was that although building purchases need to be better managed, the program has proven to be an economical means for acquiring office space. While GSA agreed with our findings, conclusions, and recommendations, we should point out that its fiscal year 1990 and 1991 budgets include no new funds for building purchases.

-- Finally, in our third and perhaps most important report of the series, Federal Office Space: Increased Ownership Would Result in Significant Savings (GAO/GGD-90-11, Dec. 22, 1989), we concluded that GSA could meet federal office space needs more economically through ownership rather than leasing but recognized several impediments to that approach. We made several recommendations to GSA as well as Congress that were designed to facilitate increased federal ownership.

Also, we have just completed a general management review of GSA. In our report, General Services Administration: Sustained Attention Required To Improve Performance (GAO/GGD-90-14, Nov. 6, 1989), we concluded, among other things, that (1) GSA needs to

assume a greater central management leadership, policy guidance, and oversight role in the public buildings area but (2) GSA's management practices and systems would not allow it to successfully complete such a role change and thus improve its performance. We made a number of recommendations designed to enable GSA to assume a policy guidance and oversight role more effectively.

OBSTACLES TO INVESTMENT IN FEDERAL BUILDING NEEDS

On the basis of this body of work, we derived what we believe are five principal obstacles to effectively meeting federal space needs. These obstacles have serious economic, political, and/or sociological consequences.

No long-term strategy

First, as emphasized in our November 1989 general management report, GSA lacks a strategic concept of its public buildings role. Because of its historical predilection toward operations, to the neglect of its central management functions, GSA developed a practice of thinking and planning on a short-term, reactive, and transactional project-by-project basis that persists today. GSA still lacks a comprehensive long-term plan that promotes more strategic thinking about the proper mix of owned and leased buildings and identifies and prioritizes total short and long-

term federal space needs as well as the most economical way of meeting them. This compromises GSA's credibility and prevents it from fulfilling its intended central management role.

GSA's lack of a strategic concept of its role also hampers congressional oversight and decision-making. Without a capital investment strategy that identifies total short and long-term space needs, relative priorities, and funding requirements as well as financing alternatives, Congress cannot (1) systematically and rationally identify the most critical or most cost-beneficial projects to be constructed or renovated, (2) monitor GSA's performance in meeting overall space needs, or (3) anticipate future capital investment funding requirements.

Accordingly, our December 1989 report on GSA's efforts to increase federal ownership of space recommended, among other things, that GSA prepare annual long-range facility plans that identify total space needs and the most economical means of meeting them. Since GSA has not yet done that and the 20 new construction projects GSA is proposing to initiate between fiscal years 1991 and 1993 did not emanate from such a plan, Congress cannot effectively judge whether (1) the proposed projects meet the highest priority needs and (2) the creative financing techniques GSA is proposing are worth the added costs.

GSA's lack of a comprehensive capital investment strategy of its own encourages others to substitute their own agendas. For example, the absence of a GSA strategy invited OMB throughout the 1980s to impose a general policy of owning only courthouses, departmental headquarters buildings, and some special purpose space such as laboratories and to lease all other space -- a policy colored by OMB's goal of reducing the size and role of government. It also places GSA in a weak position to counter the tendency of individual Members of Congress to place buildings in their own states or districts. The lack of a comprehensive investment strategy also encourages GSA's short-sighted tendency to allocate projects somewhat equally among its regions for internal political reasons.

Unreliable information systems

Secondly, our general management review and other reports pointed out that GSA has pervasive management information systems problems which seriously restrict its ability to manage public buildings effectively. Its information systems supporting public buildings activities do not produce accurate or timely management information or contain all needed data. Consequently, they do not permit forward thinking or informed decision-making. For example, our general management report pointed out that GSA senior executives were not getting the financial and program information they needed to do strategic

planning, assess progress toward agency goals and objectives, analyze and forecast trends, or exercise executive control over GSA's multifaceted businesses. Without reliable, accurate, and timely information, GSA cannot effectively plan, manage, or oversee federal space needs.

The prospectus authorization process

The congressional prospectus authorization process is a third obstacle. It forces both GSA and Congress to think on a prospectus-by-prospectus basis. GSA is required by law to develop and submit to the Public Works Committees a prospectus for each capital investment project expected to cost over $1.5 million. Each prospectus stands on its own and does not mention other competing projects. The Public Works Committees, understandably, consider prospectuses individually without data on total capital investment needs, the relative priorities of competing projects, or the availability of funding. This individual transaction focus mitigates strategic thinking, can result in irrational spending decisions, and can open the door to undue political influence. One of the principal arguments OMB has made over the years against capital investment initiatives is what it perceives as a pervasive tendency for Congress to treat them as a pork barrel.

Funding shortfalls

A fourth major obstacle to increased capital investment is funding shortfalls. Although the Federal Buildings Fund was set up to provide revenues for capital investment, it has largely failed to do so. Between 1975 and 1988, for example, the Fund generated an average of only $97 million per year (in constant 1988 dollars) for construction and acquisition. The inadequacy of this funding level is apparent when it is compared to the estimated $3 billion in funding required to construct the 20 buildings GSA wants to initiate between fiscal years 1991 and 1993. One reason for the deficient revenues is that OMB and Congress have periodically restricted the rent GSA charges tenant agencies. Since the Fund was established in 1975, rent restrictions have reduced its revenue by $4 billion (in 1989 dollars). This is money that could have been used to finance capital investment.

The current budget process

The final and perhaps most important obstacle is the inherent bias against capital investment built into the current federal budget process. The budget system is inherently biased because of the disadvantage ownership investments face due to the need to recognize and record total costs over a relatively short period. In contrast, other costs, such as leasing costs, can be spread

out over a much longer period. For example, the entire costs of constructing a building are outlayed during the few years of construction, but only one year's rent has to be outlayed for a leased building even though the government is obligated to continue making those annual payments over the entire period of the leases. As a result, the budget process places ownership projects at a distinct disadvantage during budget deliberations. These projects must compete with other means for acquiring space, such as leasing, which show up in the budget as much lower initially but commit the government to significantly higher long-term costs. Consequently, GSA and Congress have typically selected the leasing option which is actually more costly over the long term.

As we reported to you in December 1989, billions of dollars could be saved if the federal government owned office space rather than leased it. Our analyses comparing the costs of increased government ownership to the alternative of continuing to lease equivalent space showed that GSA could realize significant savings by increasing the proportion of federally-owned space.

We found that constructing 43 buildings GSA identified as potential new construction candidates between fiscal years 1991 and 1995 would save $12 billion over 30 years when compared to

leasing equivalent space--a "present value" savings of about $1.3 billion, in 1989 dollars.

Because of the Fund's inability to generate sufficient revenue for construction and the inherent budgeting bias against capital investment, GSA has been forced to increase its reliance on costly leased space. Similarly, GSA has turned to costly alternative financing techniques to finance new construction. These techniques, a form of borrowing from the private sector, allow GSA to supplement limited Fund revenues.

The marginal costs of these techniques are considerable. For example, our December 1989 report showed that the "purchase-contract" techniques GSA used to finance the construction of 68 buildings in the early 1970s cost, in 1988 present value terms, $288 million more than comparable treasury financing. For the 10 new construction projects that we understand GSA is proposing to finance through lease-purchase, we estimate that the additional marginal financing costs will likely be $463 million over a 30-year period with a present value of $166 million. (This assumes that GSA will be successful in limiting private financing costs to 75 basis points above the Treasury rate.) While lease-purchase is preferable to leasing, it is unquestionably more costly than financing through Fund revenues, direct appropriations, or U.S. Treasury loans.

GAO RECOMMENDATIONS

Ideally, Congress should eliminate the current bias against federal ownership of office space by restructuring the current federal budget to include a capital component as we have recommended before. A capital budget would help correct the budget bias and still disclose the entire cost of acquiring assets. The basic idea would be to annualize the costs of capital acquisitions by spreading the costs in the budget over the useful lives of the asset. The annual amount would be shown in the operating part of the budget as an operating expense. This would put capital acquisition costs on a comparable basis with annual lease costs. A fuller description of this concept is contained in our August 1989 report Budget Issues: Restructuring the Federal Budget-The Capital Component (GAO/AFMD-89-52).

However, capital budgeting has to be considered as a long-range solution because there are conceptual and practical questions to be resolved before such a system could be implemented. Recognizing this, we recommended in our December 1989 report on federal ownership of office space, that GSA take a leadership role in demonstrating the benefits of capital budgeting by separating its Fund activities into the categories of operating expenses and capital investment. In response to our recommendation, GSA took that first step in its 1991 budget.

Regardless of this outcome, it is imperative, as emphasized in our November 1989 general management report, that GSA (1) refocus its facilities management role from one of operating public buildings to one of providing central management leadership, policy guidance, and oversight, and (2) improve the quantity, quality, and reliability of its supporting management information systems so that it can better determine the total costs to operate individual buildings and project future leasing requirements and associated costs. Only then can GSA implement a critically needed strategic planning process and be held accountable for its results. Once GSA institutionalizes such a process, a governmentwide capital investment strategy can then be developed to (1) cost-effectively increase the ratio of government-owned space, (2) safeguard valuable public building assets, (3) bring about needed improvements in the quality of the workplace, and (4) provide a framework to promote better congressional oversight and decision-making.

As part of its overall operating philosophy, GSA will need to develop more of a customer-oriented focus and forge strong partnerships with tenant agencies. This way, GSA's planning can better take into account strategic considerations, such as workforce location and emerging technological trends, that not only affect office space needs but agencies' mission effectiveness as well.

GSA has made some progress toward this goal. In response to our general management and space ownership reports, GSA has recently established broad goals and objectives for its Public Buildings Service which it believes will provide clear direction, a framework for action, and a guideline for operations. We will evaluate the adequacy of GSA's new strategic planning efforts as part of our ongoing general management report follow-up.

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That concludes my prepared statement, Mr. Chairman. My colleagues and I would be pleased to respond to any questions.

Answers to Senator Chafee's Hearing Questions

Question No. 1

In your testimony and reports to this Committee, you underscore the need for GSA to develop a strategic space and facilities plan. Would you elaborate on the concept? How does GAO visualize a long-term space plan?

GAO Answer

An effective facilities plan should identify as well as prioritize total long-term as well as short-term office space needs for the government as a whole and the most economical, feasible means of meeting and financing those needs. It should propose the most cost-beneficial mix of leases, repairs, renovations, and modernization of existing facilities; building purchases; new construction; and disposal of unwanted, unneeded, or overly valuable real estate and buildings. It should be as comprehensive and forward thinking as possible but based on sound economic analyses of alternative means and strategies for meeting agencies' space requirements. It should be based on input from OMB and federal departments and agencies and, to the extent possible, take into account strategic considerations, such as workforce location and costs and emerging technological trends, that not only affect office space needs but agencies' mission effectiveness as well.

Question No. 2

2. Does GAO believe that the action to allow rent escalators to reflect 100% of the Consumer Price Index and the lifting of rent caps will prevent future shortfalls in the Federal Buildings Fund?

GAO Answer

Not necessarily. Rent restrictions have reduced Fund revenue by $4 billion since 1975 (in 1989 terms), and resulted in a sizable backlog of major repair and modernization projects in existing public buildings and a significant deferral of new construction projects to meet long-term space needs. There is an imperfect relationship between market-based rents and the government's long-term capital needs.

Question No. 3

3. Does GAO have a position on the Court's proposal to seek independent property authority?

GAO Answer

No, we do not have a formal position, but we do have some observations we believe Congress should consider in evaluating that proposal.

As you know, the Courts are frustrated by GSA's failure to provide requested space for new judges and new or expanded courtrooms. But, as my prepared statement indicates, so are most other tenant agencies. The FBF has not generated sufficient revenue for capital investment to meet federal space needs in general. The Courts are no exception. The Courts now must compete with Executive Branch agencies for space needs as well as with the office space needs of individual Members of Congress in their home states and congressional districts. If Congress wants to insulate the Courts from such competition, it could authorize funding for new court space when it creates new judgeships and funds those new positions. At the same time, both GSA and the Administrative Office of the Courts (ADC) could do more up-front planning to satisfy new judges space needs.

The Courts presently have space planning experts, but, unlike DOD and GSA the Courts lack the necessary in-house expertise to award, administer, and oversee major contracts with private sector firms to repair or renovate existing public buildings or to design and construct new public buildings. Also, independent real property authority for the Courts could mean that it would no longer benefit from sharing space with the Executive Branch. Historically, the Courts have been able to expand within government-owned buildings they shared with other federal agencies. The Courts appear to us to have traditionally received priority over other federal agencies for new construction or to displace other tenants in government-owned space. GSA often meets the needs of displaced agencies by leasing additional space.

Question No. 4

4. Has GAO reviewed agencies with delegated property authority? If so, are the agencies merely duplicating the efforts of GSA?

GAO Answer

Yes, we have, and no, agencies are not merely duplicating GSA's efforts.

In a August 3, 1988, report to the House Public Works Committee, Building Operations: GSA's Delegations of Authority to Tenant Agencies (GAO/GGD-88-103), we reported on GSA's program to delegate its day-to-day buildings management and lease management responsibilities to tenant agencies. This report focused on the Administration's decision to expand the program from a limited pilot test involving a few agencies and a few headquarters buildings in the Washington, D.C. area to 3,500 government-owned and leased buildings nationwide. We found that data on the cost effectiveness of the pilot delegations were limited and inconclusive because GSA did not have good information on the costs, quantity, or quality of building services before or after delegation. We concluded that what was needed over time was more information on how delegations are working, the extent to which agencies continue to be satisfied with their delegated responsibilities, and the costs of delegations.

In a soon-to-be issued follow-up report on GSA's expanded delegations program and agencies operations of their delegated government-owned buildings, we conclude that delegations work but that GSA needs to improve its overall leadership and oversight of delegations and provide more technical assistance to delegated agencies. GSA's oversight is hindered because it does not require delegated agencies to submit complete operating cost and performance data. Presently, GSA does not know how much agencies spend to operate delegated buildings or whether building services are as economical and efficient as they should be.

Under delegation, GSA transfers to tenant agencies its day-to-day responsibilities for operating a building. Tenant agencies in government-owned or leased, government-serviced buildings become responsible for cleaning and landscaping; preventive maintenance; recurring repairs and minor alterations; utilities; certain security services; and selected aspects of other building functions, including awarding and administering any building service contracts for a delegated building. These functions are defined in a delegation agreement signed by both GSA and the delegated agency. In leased, owner-serviced buildings, GSA and the tenant agency execute a memorandum of understanding specifying the delegation of day-to-day lease management functions.

GSA retains responsibility for overall custody, control, and management of government-owned buildings and building systems and remains the federal government's leasing agent for leased space. In that regard, GSA continues to be responsible for all major expenditures that require congressional line-item approval, all nonrecurring major repairs and building renovations and modernization; and certain other matters, such as initial space alterations and assigning space to other tenants in a delegated buildings.

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